



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

April 14, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Savings Bank
Charter Number 705153

320 E Main St. Lincolnton, NC 28092-3398

Office of the Comptroller of the Currency

212 South Tryon Suite 700 Charlotte, NC 28281

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 Outstanding.

The Lending Test is rated Satisfactory.

The Community Development Test is rated Outstanding.

The major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is more than reasonable based on the bank's size, financial condition, and relevant competitive factors;
- A majority of the bank's loans are made within its assessment area (AA).
- The geographic distribution of loans reflects reasonable dispersion throughout the AA;
- No complaints were received during the evaluation period.
- The bank provided excellent responsiveness through its Community Development (CD) activities, and investments.

Scope of Examination

We performed a full-scope evaluation of First Federal Savings Bank (First Federal) performance under the Intermediate Small Bank examination procedures. Under these procedures, there is a Lending Test and a Community Development Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The Community Development (CD) Test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and contributions.

The evaluation period for the Lending Test covers performance from January 1, 2012 through December 31, 2013. The evaluation period for the Community Development test is from January 1, 2012 through December 31, 2013.

First Federal is not subject to the reporting requirements of the Home Mortgage Disclosure Act Loan Application Report (HMDA-LAR); however, the bank does maintain a HMDA-LAR. As a result, we reviewed a random sample of 40 reportable loans to ensure data integrity of the bank's HMDA-LAR. We did not identify any material or systemic issues.

We used 2010 U.S. Census data to analyze the bank's mortgage lending activity for the period of January 1, 2012 through December 31, 2013.

Description of Institution

First Federal is a federally chartered, mutual savings association headquartered in Lincolnton, North Carolina. As of December 31, 2013, the bank had total assets of approximately \$325 million with 97.75 percent of the Bank's \$262 million loan portfolio in real estate loans, while 82.22 percent of real estate loans are 1-4 family residential loans.

First Federal conducts operations from its main office in the city of Lincolnton, North Carolina and operates three additional branch offices. Branch offices are located in the city of Denver, Boger City and Vale, North Carolina. All four branch locations are located in Lincolnton County. The Vale branch office opened in December 2013. There were no branches closed during the review period.

The bank's four branch office lobbies are open for business from 9:00 a.m. to 5:00 p.m. Monday through Thursday, and until 5:30 p.m. on Friday. The bank does not offer Saturday or Sunday banking hours. These banking hours of operation are convenient for customers and consistent with those of the institution's competitors. Additional products and services offered by the bank include cashier's checks, drive-through windows, night depositories, ATMs, safe deposit boxes, online banking and bill pay.

The bank operates as a mutual thrift, concentrating its operations in the origination of mortgage loans, and the acceptance of deposits. Management continues to focus on conventional mortgages for the purchase and refinance of 1-4 family residences.

According to information obtained from a community contact, the overall economy of Lincoln County has improved since the recession. The community contact stated that their organization continuously seeks donations and volunteers from the community. The contact indicated that small businesses face challenges in obtaining loans from financial institutions. He stated banks are much more risk averse now as they require more collateral and strong credit before they will extend credit to small business owners. The contact was hopeful to see more funding from financial institutions as economic conditions in Lincoln County continue to improve.

The previous CRA evaluation dated March 1, 2010, rated the Bank's CRA performance as "Outstanding".

Description of Assessment Area(s)

First Federal has defined Lincoln County as their AA, which is a Non-Metropolitan Statistical Area (Non-MSA) as of December 31, 2013. The AA includes eighteen census tracts (CT) comprised of two moderate-income, nine middle-income, and seven upper-income CTs. There are no low-income CTs located in the AA. First Federal's AA does not arbitrarily exclude any low- or moderate-income CT.

| FIRST FEDERAL SAVINGS BANK ASSESSMENT AREA DEMOGRAPHICS BASED UPON 2010 CENSUS DATA | | | | | | |
|--|---|----------------|----------------|-----------|-----------|-----------|
| CENSUS TRACT INCOME LEVEL | | | | | | |
| | | TOTAL | LOW | MODERATE | MIDDLE | UPPER |
| CENSUS TRACTS/BNAs | # | 18 | 0 | 2 | 9 | 7 |
| POPULATION | # | 78,265 | 0 | 7,351 | 47,858 | 23,056 |
| BY LOCATION | | 100.00% | 0.00% | 9.39% | 61.15% | 29.46% |
| % OWNER OCCUPIED | | 100.00% | 0.00% | 60.17% | 66.64% | 74.90% |
| % RENTER OCCUPIED | | 100.00% | 0.00% | 30.01% | 24.32% | 12.53% |
| % VACANT | | 100.00% | 0.00% | 9.82% | 9.04% | 12.57% |
| MEDIAN HOUSING VALUE | | \$167,250 | -0- | \$122,450 | \$125,864 | \$267,808 |
| MEDIAN FAMILY INCOME (MFI) | | 2012: \$50,200 | 2013: \$48,300 | | | |
| % OF FAMILIES BELOW POVERTY LEVEL | | 9.91% | | | | |

*Source: 2010 U.S. Census Data

Lincoln County offers opportunities for commercial, retail, industrial development, office expansion and relocation. Some of the area's largest employers are Lincoln County Schools, The Timken Company, Walmart Associates Inc., and Caterpillar North America. The AA appears diversified with a strong emphasis on manufacturing and distribution.

According to the U.S. Bureau of Labor Statistics, Lincoln County's annual unemployment rate for 2012 was 10.1percent. At the time of this examination, the U.S. Bureau of Labor Statistics had not yet provided Lincoln County's annual unemployment rate for 2013. In comparison, North Carolina's annual unemployment rates for 2012 and 2013 were 9.2 percent and 8percent, respectively.

According to the Federal Deposit Insurance Corporation (FDIC), as of June 30, 2013, there are 10 federally insured depository institutions with 24 branches, holding \$907 million in deposits, located in the AA. This includes several larger institutions such as Bank of America N.A., Branch Banking and Trust Company and Fifth Third Bank. However, First Federal continues to hold the majority of the market share at 29.21percent as of June 30, 2013. Carolina Trust Bank and Bank of America, N.A. have market shares of 17.3 percent and 15.3 percent, respectively. Carolina Trust Bank continues to have the largest branch network in the assessment area with five branches. First Federal Savings bank has four branches.

Conclusions with Respect to Performance Tests

LENDING TEST

The performance under the Lending Test is rated “Satisfactory.” The bank’s loan-to-deposit (LTD) ratio is reasonable and a majority of the bank’s loans are within the bank’s AA. The bank’s geographic distribution of loans reflects reasonable dispersion throughout the AA. The distribution of borrower’s income also reflects reasonable penetration among borrowers of different income levels.

Loan-to-Deposit Ratio

First Federal’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and the credit needs of the AA. The bank’s quarterly average LTD beginning March 1, 2010 to December 31, 2013 is 89 percent. In comparison, the average LTD ratio of the bank’s peer group is 84 percent. The peer group consisted of similarly sized institutions based on size and geography. During the 14 quarter period, the bank’s LTD ratio ranged from a low of 82 percent to a high of 99 percent. The bank’s peer group LTD ratios ranged from a low of 69 percent to a high of 95 percent.

Lending in Assessment Area

During the evaluation period, a majority of First Federal’s residential loans are in the bank’s AA. Based upon our review, 68 percent of the total number and 63 percent of the total dollar amount were within the bank’s AA. Based on the percentage of lending in the AA, the bank’s performance meets standards for satisfactory performance.

Table 1 compares the bank’s record of HMDA-reportable loan originations inside and outside the AA from January 1, 2012 through December 31, 2013.

| Table 1 - Mortgage Loans Originated Within/Outside AA January 1, 2012 through December 31, 2013 | | | | |
|--|--------|------------|-----------------------|------------|
| Originations | Number | Percentage | Dollar Amount (\$000) | Percentage |
| Within | 302 | 68% | \$51,221 | 63% |
| Outside | 144 | 32% | \$30,107 | 37% |
| Total | 446 | 100% | \$81,328 | 100% |

Lending to Borrowers of Different Incomes

Overall, the bank’s distribution of residential real estate loans to borrowers of different income levels reflects reasonable penetration.

The percentage of families in the AA with low-income levels was 18.59 percent according to the 2010 U.S. Census data. Less than 3 percent of the bank's originated loans were made to low-income level borrowers, and less than 14 percent were made to borrowers in the moderate-income level. However, the bank's ability to originate mortgage loans to low-income borrowers may be impacted by high poverty level in the AA. According to the 2010 U.S. Census data shows that 9.91 percent of families in the AA had income below the poverty level. Additionally, through discussions with bank management, the fastest growing area in the bank's AA is located in upper-income CT in Denver, NC.

Table 2 presents First Federal's percentage of lending to borrowers of different income levels within the AA, and compares it to the percentage of families in each of the income categories.

| Table 2 - Lending to Borrowers of Different Income Levels in AA January 1, 2012 through December 31, 2013 | | | | | | |
|--|-----------------------|---------------------|-----------------|------------------------|-------------------|---------------------------------|
| Income Category | Percent of MFI | No. of Loans | No. Pct. | Volume (\$000s) | Pct. of \$ | Distribution of Families |
| Low | <50% | 8 | 2.73% | 467 | 0.94% | 18.59% |
| Moderate | ≥50 -<80% | 40 | 13.65% | 3,328 | 6.69% | 16.26% |
| Middle | ≥80- <120% | 52 | 17.75% | 6,212 | 12.49% | 18.50% |
| Upper | ≥120% | 193 | 65.87% | 39,718 | 79.88% | 46.66% |
| Total | | 293 | 100.00% | 49,725 | 100.00% | 100.00% |

* Does not include loans for which borrower income was not considered

Table 3 compares First Federal's lending to the lending activity of all federally regulated financial institutions. The bank's distribution of loans to low- and moderate-income borrowers was reasonable compared to the percentage of loans originated by other lenders. As previously discussed, high unemployment and poverty rates may hinder lending opportunities to low-income borrowers. The bank's distribution of loans to moderate-income borrowers exceeded the percentage of lending to moderate-income borrowers by other lenders.

| Table 3 Borrower Income Level | First Federal Savings Bank (2012 - 2013) | | 2012 HMDA Aggregate | Percent of Families |
|--|---|-----------------------------|------------------------------------|--------------------------------|
| | Number of Loans | Percent of Loans | | |
| Low = <50% | 8 | 2.73% | 4.60% | 18.59% |
| Moderate = 50-79% | 40 | 13.65% | 13.29% | 16.26% |
| Middle = 80-119% | 52 | 17.75% | 20.00% | 18.50% |
| Upper = ≥ 120% | 193 | 65.87% | 62.11% | 46.66% |
| **Total | 293 | 100.00% | 100.00% | 100.00% |

* Does not include loans for which borrower income was not considered

Geographic Distribution of Loans

First Federal's geographic distribution reflects a reasonable dispersion throughout the AA. The AA is primarily composed of middle-income and upper-income CTs. The AA includes only two moderate-income CTs. There are no low-income CTs in the AA. Table 4 presents the geographic distribution of the bank's 2012 and 2013 residential real estate loans in the AA. The majority of the bank's residential loans, 60.93 percent, were originated and approved for properties located in middle-income CT. The bank's geographic distribution of both number and loan volume are in line with the distribution of Owner Occupied Housing Units (OOHU) in the AA.

| Table 4 – Geographic Distribution of Loans in AA January 1, 2012 through December 31, 2013 | | | | | | |
|---|----------------|--------------|----------|-----------------|------------|-----------------------------|
| Income Category | Percent of MFI | No. of Loans | No. Pct. | Volume (\$000s) | Pct. of \$ | Distribution of OOHUs in AA |
| Low | <50% | 0 | 0.00% | 0 | 0.00% | 0.00% |
| Moderate | ≥50 -<80% | 21 | 6.95% | 3,727 | 7.32% | 7.71% |
| Middle | ≥80- <120% | 184 | 60.93% | 27,181 | 53.41% | 60.18% |
| Upper | ≥120% | 97 | 32.12% | 19,986 | 39.21% | 32.11% |
| Total | | 302 | 100.00% | 50,894 | 100.00% | 100.00% |

Table 5 compares the bank's geographic distribution of loans compared to the geographic distribution of other lenders based on Aggregate 2012 HMDA data. HMDA data for 2013 is not yet available. The bank's distribution of loans in moderate-income CT was above the percentage of loans in moderate-income CT made by other lenders.

| Table 5 - Geographic Distribution of Loans | | | | |
|--|---|---------------------|---------------------------|----------------------------------|
| Table 5 Income Category | First Federal Savings Bank (2012 - 2013) | | 2012 Aggregate HMDA | Distribution of OOHU In AA |
| | Number of Loans | Percent of Loans | | |
| Low = <50% | 0 | 0.00% | 0.00% | 0.00% |
| Moderate = 50-79% | 21 | 6.95% | 5.84% | 7.71% |
| Middle = 80-119% | 184 | 60.93% | 47.28% | 60.18% |
| Upper = ≥ 120% | 97 | 32.12% | 46.88% | 32.11% |
| Total | 302 | 100.00% | 100.00% | 100.00% |

Responses to Complaints

During the evaluation period, there were no complaints related to the bank's performance in meeting the needs of the AA.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated “Outstanding.” The bank demonstrates excellent responsiveness to the community development (CD) needs in its AA through CD activities and investments.

Number and Amount of Qualified Investments

First Federal is a member of the Community Investment Corporation of the Carolinas (CICCAR), formerly known as the Community Investment Corporation of North Carolina (CICNC). CICCAR is a regional lending consortium that provides permanent financing to LLCs and Limited Partnerships that own apartment communities that have been awarded Federal Low Income Housing Tax credits.

During the evaluation period, First Federal funded 99 loan participations for CICCAR projects with an outstanding balance of \$2.3 million as of December 31, 2013.

Additionally, First Federal invested \$5 million in the CRA Qualified Investment Fund, managed by Community Capital Management, Inc. The CRA Fund is composed of CRA qualified investments in LMI communities. The fund seeks to provide current income consistent with the preservation of capital through investments in high-credit quality fixed income securities that support community development activities.

Qualified investments within the fund include:

- \$180,363 in Self-Help Credit Union CDs, used to finance loans to low- and moderate-income homeowners and small businesses in Catawba, Lincoln, Cleveland, Mecklenburg, and Gaston counties in North Carolina.
- \$1,662,522 of loans to low- and moderate-income families in Gaston, Mecklenburg, Lincoln, Catawba and Cleveland counties in North Carolina.
- \$961,467 in a mortgage-backed security pool investment, which finances low-moderate housing in Mecklenburg and Catawba counties in North Carolina
- \$800,000 in Series 33 Revenue Refunding bonds used by the North Carolina Housing Finance Agency to reduce the cost of home ownership for first-time home buyers with low-to-moderate incomes.
- \$450,011 in U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates to benefit low-moderate income persons through job creation.

First Federal recognizes that they have limited resources to directly lend to low- and moderate-income individuals and CT's. Therefore, the bank invests significantly into CRA qualifying investments which more than meets the needs of its community. The combination of the CICCAR and CRA Qualified Investment fund total \$7.3 million or approximately 16 percent of capital.

Responsiveness to Community Development Needs

During our review, First Federal made charitable donations that totaled more than \$36 and \$58 thousand in 2012 and 2013 throughout the community. We identified the following organizations that provided services for low- and moderate-income individuals (LMI) which qualified for CRA credit:

- \$1,200 to Christian Ministries in 2012 and \$1,300 in 2013. Christian Ministries operates a soup kitchen and performs emergency services for LMI Lincolnton residents.
- \$1,750 to Camp Challenge for the North Carolina Banker's Association in 2012 and \$2,050 in 2013. Camp Challenge provides experiences (literacy and personal finance courses, summer camps) for high-achieving, low-resource students.
- \$4,599 to Lincolnton High School (LHS) in 2013. LHS is a high school composed primarily of low- to moderate-income students where over 58 percent of students come from economically disadvantaged backgrounds. The majority of First Federal's donation to the school provided new computers to the students.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 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.

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