



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

March 13, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Piedmont Federal Savings Bank
Charter Number 700007

201 South Stratford Road
Winston-Salem, NC 27103

Office of the Comptroller of the Currency

212 South Tryon St., 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, 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: Satisfactory

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Piedmont Federal Savings Bank's performance rating is supported by the following factors:

- The bank's loan-to-deposit ratio is reasonable based upon the bank's resources and competitive factors.
- The bank originates a majority of its loans inside the combined assessment areas (AAs).
- The distribution of loans to borrowers of different income levels reflects reasonable penetration.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- Community development activities reflect adequate responsiveness to the needs of the AA through CD loans, qualified investments, and CD services.

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 usually have between 2,500 and 8,000 persons, and 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 ten years and used to determine the income level category of

geographies. Also, the median income determined by the Department of Housing and Urban Development 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 Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county 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) and the Thrift Financial Reporting (TFR) 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

Piedmont Federal Savings Bank (Piedmont Federal) is a federally chartered, mutual savings association headquartered in Winston-Salem, North Carolina (NC). As of December 31, 2016, Piedmont Federal reported total assets of \$893 million, Tier 1 Capital of \$226.5 million, and total deposits of \$224 million. Piedmont Federal's total loans equaled \$508 million representing 57.94 percent of total assets. Home mortgage loans secured by 1-4 single-family dwellings represent 99.12 percent of the bank's total loan portfolio. Multi-family mortgage loans, commercial real estate loans, and consumer loans represent 0.73 percent, 0.14 percent, 0.01 percent of the total loan portfolio, respectively.

Piedmont Federal operates as a traditional savings association originating home mortgage loans secured by local deposits. The bank operates ten full service branch offices in the counties of Forsyth, Wilkes, and Watauga, NC. Piedmont Federal offers a variety of home mortgage loans, deposit products, and banking services including mobile banking. As a portfolio lender, Piedmont Federal underwrites, originates, and services all of its home mortgage loans. The bank does not originate home mortgage loans for sale on secondary market. Piedmont Federal offers a First-Time Home Buyers Loan Program that features no origination fees and flexible underwriting guidelines.

The bank's two AA consists of the Winston-Salem, NC Metropolitan Statistical Area (MSA) and the Non-MSA counties of Wilkes and Watauga. The Winston-Salem MSA includes the five counties of Davidson, Davie, Forsyth, Stokes, and Yatakins. Based upon 2010 U.S. Census data, the Winston-Salem MSA consists of 150 census tracts comprised of thirteen low-income tracts, twenty-eight moderate-income tracts, sixty-five middle-income tracts, and forty-four upper-income tracts. None of the census tracts in the Winston-Salem MSA were excluded from the bank's AA. The Wilkes and Watauga Non-MSA AA consists of 27 census tracts. Based upon 2010 U.S. Census data, there are no low-income census tracts in the Wilkes Watauga Non-MSA AA. There are two moderate-income census tracts, seventeen middle-income census tracts, and eight upper-income census tracts. According to information from the Federal Financial Institutions Examination Council in 2015 and 2016, all seventeen middle-income census tracts are designated distressed geographies due to high poverty rates. No tracts in Wilkes or Watauga counties were excluded from the bank's AA.

Winston-Salem MSA AA

Piedmont Federal faces significant competition from numerous depository institutions and lenders in the Winston-Salem MSA AA. According to June 30, 2016 Federal Deposit Insurance Corporation (FDIC) Deposit Market Share data, Piedmont Federal's deposits totaled \$620 million in the AA representing approximately 93.23 percent of the bank's total deposits. Piedmont Federal ranked 8th of 21 depository institutions, with a market share of 1.63 percent. Branch Banking and Trust Company, Wells Fargo National Bank, and Bank of North Carolina ranked 1st, 2nd, and 3rd with deposit market shares of 75.19 percent, 7.17 percent, and 4.75 percent, respectively. Competition for

mortgage loans is also significant. According to 2015 Peer Mortgage Data, Piedmont Federal ranked 9th out of 342 lenders with a market share of 2.47 percent. Wells Fargo National Bank, Branch Banking and Trust, and State Employees Credit Union ranked, 1st, 2nd, and 3rd, with market shares of 8.48 percent, 7.87 percent, and 6.86 percent, respectively.

The table below provides key demographic information:

Demographic Information for Full Scope: Winston-Salem MSA AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	150	8.67	18.67	43.33	29.33
Population by Geography	640,595	5.96	19.94	45.35	28.75
Owner Occupied Housing by Geography	177,486	2.41	14.84	49.93	32.82
Family Distribution by Income Level	169,125	21.29	17.48	20.77	40.45
2010 Census Median Family Income (MFI)		\$56,529	Median Housing Value		\$140,154
FFIEC Updated MSA MFI: 2016		\$57,000	Families Below Poverty Level		11%

Source: 2010 U.S. Census data

According to information derived from a November 2015 Comprehensive Housing Market Analysis of Winston-Salem prepared by the Department of Housing and Urban Development, economic conditions are improving in the AA. Employment growth increased through the addition of new manufacturing and service-related jobs. The AA’s unemployment rate declined from 6.3 percent in December 31, 2013 to 4.6 percent in December 31, 2016. The AA’s unemployment rate is lower than the state unemployment rate of 5.2 percent as of December 31, 2016. Major employment sectors include health services, education, and manufacturing. In addition, the housing market in Winston-Salem AA is stable. Since 2012, home prices increased due to growth in home sales and the lagging supply of homes.

Wilkes and Watauga Non-MSA AA

Piedmont Federal faces significant competition for deposits and loans within the Wilkes and Watauga Non-MSA AA. According to June 30, 2016 FDIC Deposit Market Share data, Piedmont Federal’s deposits of \$45 million represented approximately 6.77 percent of the bank’s total deposits. Piedmont Federal ranked 10th out of 15 depository institutions with a market share of 2.67 percent. Wells Fargo National Bank, Branch Bank and Trust Company, and First Citizens Bank and Trust ranked 1st, 2nd, and 3rd with market shares of 24.89 percent, 20.49 percent, and 11.83 percent, respectively. Competition for mortgage loans is also significant. According to 2015 Peer Mortgage Data, Piedmont Federal ranked 14th out of 196 lenders with 1.62 percent market share of home mortgage loans. State Employees Credit Union, Branch Bank and Trust

Company, and Wells Fargo National Bank ranked 1st, 2nd, and 3rd with market shares of 14.65 percent, 9.02 percent, and 8.16 percent, respectively.

The table below provides key demographic information:

Demographic Information for Full Scope Area: Wilkes-Watauga Non-MSA AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	27	0.00	7.41	62.96	29.63
Population by Geography	120,419	0.00	5.66	68.10	26.24
Owner Occupied Housing by Geography	32,098	0.00	5.16	73.05	21.79
Family Distribution by Income Level	30,758	23.04	17.11	18.54	41.30
2010 Census Median Family Income (MFI)		\$46,764	Median Housing Value		\$172,880
FFIEC Updated MSA MFI: 2016		\$47,600	Families Below Poverty Level		14%

Source: 2010 U.S. Census data

Based upon information from the US. Bureau of Labor Statistics and the North Carolina Department of Commerce, employment, wages, and population are increasing in the AA. With these strong economic conditions, housing prices are increasing. As of December 31, 2016, the unemployment rate for Watauga County and Wilkes County is 4.4 percent and 4.6 percent, respectively. The AA's unemployment rate is less than the North Carolina state unemployment rate of 5.3 percent. Major employment sectors in Watauga County include education, health care services, and local government. Top employment sectors in Wilkes County include agriculture, retail, education and health services.

There are no legal or financial factors that impede the bank's ability to meet the needs of its AAs. Piedmont Federal's rating at the preceding CRA Examination dated April 28, 2014 was "Satisfactory."

Scope of the Evaluation

Evaluation Period/Products Evaluated

Piedmont Federal's performance was evaluated under the Intermediate Small Bank CRA examination procedures. This evaluation includes a Lending Test and a Community Development (CD) Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The CD Test evaluates the bank's responsiveness to community development needs in the AA through qualified lending, investments, and service activities in the AA.

Based on our analysis of the bank's lending activity, we determined that home mortgage loans represents the bank's primary loan product. We analyzed home mortgage loans that the bank reported under the Home Mortgage Disclosure Act (HMDA) for the period of January 1, 2014 through December 31, 2016. We reviewed CD loans, investments, and services for the period from April 28, 2014 through March 13, 2017.

Data Integrity

In December 2016, we tested the accuracy of the bank's HMDA data for calendar years 2014 through 2016. The bank's procedures for HMDA data collection, verification, and reporting are adequate. Our review found the bank's HMDA data to be accurate and reliable for purposes of this CRA performance evaluation.

Selection of Areas for Full-Scope Review

We selected Piedmont Federal's two AAs of Winston-Salem MSA and Wilkes-Watauga Non-MSA for full scope reviews.

Ratings

The bank's overall rating is based primarily on those areas that received a full-scope review. We placed greater weight on the bank's performance in the Winston-Salem MSA AA. The majority of the bank's deposits and loans are in the Winston-Salem MSA AA. According to June 30, 2016 FDIC Deposit Market Share Report, 93.23 percent of the bank's total deposits are in the Winston-Salem MSA AA. During the evaluation period, 88.68 percent of the bank's total home mortgage loan originations are in Winston-Salem MSA AA. In comparison, 6.77 percent and 11.32 percent of the bank's total deposits and home mortgage loan originations are in the Wilkes-Watauga Non-MSA AA, respectively.

The overall rating is based on the results of the Lending Test and the CD Test. To determine the rating under the lending test, we assessed the bank's lending activity using HMDA loan data. For the CD Test rating, we assessed CD loans, qualified investments, and CD services.

Other

During our evaluation, we contacted two representatives of community development organizations and one small business development organization. The contacts identified affordable housing, financing for first-time homebuyers, and financing for small businesses as needs in the AAs. Other identified needs included financial literacy training for small business owners, financing to develop affordable housing, and financial grants to community organizations serving LMI individuals.

Other Performance Data - Lending Test

In addition to CD loans made in the bank's AAs, we considered CD loans Piedmont Federal originated in the broader statewide area that includes the bank's AAs. These loans fell into one of two categories: 1) originated to organizations or used for activities with a purpose, mandate or function to serve one or more of the bank's AAs; or 2) originated to organizations or used for activities without a purpose, mandate or function to serve one or more of the bank's AAs.

Discriminatory 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.

Conclusions with Respect to Performance Tests

As part of the Lending Test, we analyzed the bank's loan-to-deposit ratio, lending inside the AA, borrower distribution, geographic distribution, and complaints received. We also considered the demographic data, the local economy, competition, and the community contact data within the AAs.

LENDING TEST

Piedmont Federal's performance under the Lending Test is rated Satisfactory. The conclusion is based on a full-scope review of the bank's performance in the Winston-Salem MSA AA and Wilkes-Watauga Non-MSA AA.

Loan-to-Deposit Ratio

Piedmont Federal's average loan-to-deposit ratio (LTD) is reasonable considering the bank's size and competition in the AAs. The bank's average LTD ratio for the twelve quarters since the preceding CRA examination in April 2014 is 75.85 percent. Piedmont Federal's average LTD ranged from a low of 74.63 percent to a high of 76.66 percent. In comparison, the average LTD ratio for similarly situated lenders in North Carolina was 89.24 percent. The peer average ranged from a low of 87.81 percent to a high of 90.26 percent.

Lending in Assessment Area

Piedmont Federal originates the majority of its loans inside the combined AAs. During the evaluation period, the bank originated 1,432 loans totaling over \$221 million in the combined AAs. This total represents 86.61 percent of the total number and 86.97 percent of the total dollar volume of loans in the combined AAs. The following table details this analysis.

Loans Originated In and Outside of the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loans	1,432	88.61	184	11.39	1,616	221,958	86.97	33,267	13.03	255,225
Total	1,432	86.61	184	11.39	1,616	221,958	86.97	33,267	13.03	255,255

Source: All HMDA reported loans from January 1, 2014 through December 31, 2016

Lending to Borrowers of Different Incomes

The bank's overall distribution of loans to borrowers of different income levels reflects reasonable penetration. In evaluating borrower income distribution, we considered the impact of family poverty rates and the barrier that this may pose to home ownership. According to 2010 U.S. Census data, family poverty rates in the Winston-Salem MSA AA and the Wilkes-Watauga Non-MSA AA are 10.99 percent and 13.58 percent,

respectively. We also considered the impact of competition from other larger lenders. These other lenders have extensive resources and offer a wide range of home mortgage products, including those with features that may be attractive to low- and moderate-income borrowers.

Winston-Salem MSA AA

The bank’s distribution of loans reflects reasonable penetration among borrowers of individuals of different income levels. The bank’s percentage of lending to low-income borrowers was significantly below the percentage of low-income families. The bank’s percentage of loans to low-income borrowers was below aggregate lending. The bank’s percentage of lending to moderate-income borrowers exceeded the percentage of moderate-income families. The bank’s percentage of lending to moderate-income borrowers was near to aggregate lending.

Competition in the market is strong and dominated by larger lenders that offer a wide range of loan products such as government guaranteed and insured loan products. These government loans include the Federal Housing Administration and the U.S. Department of Veterans Affairs. These government loans have features that may be attractive to low-income and moderate-income borrowers. Such features include flexible loan underwriting guidelines and lower down payment requirements. Piedmont Federal does not offer government guaranteed and insured loans. Analysis of 2015 Mortgage Peer Data showed that several large lenders and mortgage companies in the AA offered these government loan products.

The following table details the borrower income distribution of home mortgage loans:

Borrower Income Distribution of Home Mortgage Loans in Winston-Salem MSA AA				
Borrower Income Category	Number of Loans	Percent of Loans	% of Families Distribution	% Aggregate HMDA
Low	35	3.99	21.29	9.05
Moderate	165	18.81	17.48	23.70
Middle	207	23.60	20.77	26.10
Upper	470	53.59	40.45	41.15
Total	877	100.00%	100.00%	100.00%
<i>Source: 2014-2016 HMDA Data, 2010 Census Data, and 2015 Aggregate HMDA Data; Does not include loans for which borrower income was not reported.</i>				

Wilkes-Watauga Non-MSA AA

The bank’s distribution of loans reflects reasonable penetration among borrowers of different income levels. The bank’s percentage of lending to low-income borrowers was significantly below the percentage of low-income families. The bank’s percentage of lending to low-income borrowers exceeded aggregate lending. The bank’s percentage of lending to moderate-income borrowers was significantly below the percentage of

moderate-income families. The bank's percentage of lending to moderate-income borrowers was slightly below aggregate lending.

The following table details the borrower income distribution of home mortgage loans:

Borrower Income Distribution of Home Mortgage Loans in Wilkes-Watauga Non-MSA AA				
Borrower Income Category	Number of Loans	Percent of Loans	% of Families Distribution	% Aggregate HMDA
Low	6	5.41	23.04	4.04
Moderate	9	8.11	17.11	14.20
Middle	27	24.32	18.54	20.12
Upper	69	62.16	41.30	61.64
Total	111	100.00%	100.00%	100.00%
<i>Source: 2014-2016 HMDA Data, 2010 Census Data, and 2015 Aggregate HMDA Data; Does not include loans for which borrower income was not reported.</i>				

Geographic Distribution of Loans

The bank's overall distribution of loans reflects reasonable dispersion throughout the AAs. In evaluating the geographic distribution of loans in the AAs, we considered the limited portion of owner-occupied housing units in low- and moderate-income (LMI) census tracts. We also considered the impact of competition from other larger lenders offering a wide range of loan products.

Winston-Salem MSA AA

The geographic distribution of loans reflects reasonable dispersion throughout the Winston-Salem MSA AA. The bank's percentage of lending in low-income census tracts was significantly below the percentage of owner-occupied census tracts in low-income census tracts. The bank's percentage of lending in low-income census tracts was significantly below aggregate lending. The bank's percentage of lending in moderate-income census tracts was below the percentage of owner-occupied housing units in moderate-income census tracts. The bank's percentage of lending in moderate-income census tracts was slightly below aggregate lending.

Lending opportunities in LMI census tracts may be impacted by the limited number of owner-occupied housing units in these geographies. According to 2010 U.S. Census Bureau data, 59.59 percent and 40.23 percent of total housing units in low-income and moderate-income census tracts, respectively, are renter occupied.

The following table details the geographic distribution of loans:

Geographic Distribution of Home Mortgage Loans in Winston-Salem MSA AA				
Census Tract Income Level	Number of Loans	Percent of Loans	% Owner Occupied*	% Aggregate HMDA
Low	1	0.11	2.41	1.30
Moderate	65	7.34	14.84	11.80
Middle	285	32.20	49.93	46.16
Upper	534	60.34	32.82	40.74
Total	885	100.00%	100.00%	100.00%
<i>Source: 2014-2016 HMDA Data, 2010 Census Data, and 2015 Aggregate HMDA Data; *Owner Occupied Housing Units</i>				

Wilkes-Watauga Non-MSA AA

The geographic distribution of loans reflects reasonable dispersion throughout the Wilkes-Watauga Non-MSA AA. The bank's percentage of lending in moderate-income census tracts was significantly below the percentage of owner-occupied housing units in moderate-income census tracts. The bank's percentage of lending in moderate-income census tracts was slightly below aggregate lending.

The limited percentage of lending in the moderate-income census tracts may be impacted by the competition from larger lenders who offer a wide range of home mortgage loan products. Top lenders in moderate-income census tracts include State Employees Credit Union, Branch Bank and Trust Company, and Amerisouth Mortgage Company, ranking 1st, 2nd, and 3rd with market share of 23.29 percent, 10.96 percent, and 8.22 percent, respectively.

The following table details the geographic distribution of loans:

Geographic Distribution of Home Mortgage Loans in Wilkes-Watauga Non-MSA AA				
Census Tract Income Level	Number of Loans	Percent of Loans	% Owner Occupied*	% Aggregate HMDA
Low	0	0.0	0.00	0.00
Moderate	2	1.77	5.16	3.89
Middle	73	64.60	73.05	63.54
Upper	38	33.63	21.79	32.58
Total	113	100.00%	100.00%	100.00%
<i>Source: 2014-2016 HMDA Data, 2010 Census Data, and 2015 Aggregate HMDA Data; *Owner Occupied Housing Units</i>				

Responses to Complaints

There were no complaints concerning the bank's performance in meeting the needs of the AA during the evaluation period.

COMMUNITY DEVELOPMENT TEST

First Piedmont's overall CD performance is rated "Satisfactory". The bank's CD activities reflect adequate responsiveness to the community development needs of the AA through CD loans, qualified investment, and CD services. In evaluating the bank's CD activities, we considered that the bank's business strategy as a traditional home mortgage lender may impact Piedmont Federal's ability to originate large scale affordable housing projects and engage in other activities promoting economic development.

Number and Amount of Community Development Loans

The bank's overall CD lending activity reflects adequate responsiveness to community development needs in the AAs.

Winston-Salem MSA AA

Piedmont Federal's CD loans reflect adequate responsiveness to community development needs. During the evaluation period, Piedmont Federal funded \$70,000 as part of \$1.3 million project to develop a 64-unit multi-family affordable apartment building in Winston-Salem.

Watauga-Wilkes Non-MSA AA

Piedmont Federal's CD loans reflect adequate responsiveness to community development needs. Piedmont Federal's participation loans in the regional lending consortium qualifies as community development lending in the AA. The lending consortium serves a regional area, which includes the Watauga-Wilkes Non-MSA AA.

Broader Regional Area

During the evaluation period, Piedmont Federal purchased and funded fifty-four community development loan participations totaling \$1.9 million. These participation loans are through a regional lending consortium which serves a broader regional area which includes the bank's AAs. This consortium provides permanent financing to support the development of affordable multi-family housing in Georgia, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

Number and Amount of Qualified Investments

The bank's overall level of qualified investments reflects adequate responsiveness to community development needs in the AAs.

Winston-Salem MSA AA

Piedmont Federal's qualified investments reflect adequate responsiveness to community development needs in the AA. During the evaluation period, Piedmont

Federal qualified investments and financial contributions equaled \$1.4 million. Financial contributions represent the majority of the qualified investments. The bank provides 43 financial contributions to 15 community organizations totaling \$291 thousand. This total included \$56 thousand to an organization providing social services to LMI elderly individuals. The bank also invested in one mortgage back security, totaling approximately \$1.1 million. This investment is secured by 10 mortgage loans to low- and moderate-income borrowers in the AA.

Wilkes-Watauga Non-MSA AA

Piedmont Federal's qualified investments reflect adequate responsiveness to community development needs in the AA. During the evaluation period, Piedmont Federal originated qualified investments totaling \$257 thousand. These qualified investments consist of six financial contributions to three community development organizations totaling \$3 thousand. The majority of the contributions went toward an organization providing affordable single-family homes for low- and moderate-income individuals. First Piedmont also purchased a qualified mortgage-backed security in the amount of \$254 thousand. The majority of the loans securing this mortgage back security are loans to LMI borrowers.

Extent to Which the Bank Provides Community Development Services

The bank's overall CD services reflect adequate responsiveness to community credit needs in the AAs.

Winston-Salem MSA AA

Piedmont Federal's CD services reflect adequate responsiveness to community development needs. Seven bank employees provide leadership and technical expertise to seven community organizations. These organizations include several groups involved in affordable housing and social services targeted toward LMI individuals. First Piedmont also provides free loan servicing of 284 loans for an affordable housing organization. Loan servicing includes collection of loan payments and escrow account management.

Piedmont Federal's branch distribution in the AA is adequate. Branches are reasonably accessible to essentially all geographies and individuals of different income levels. The bank's percentage of branch offices in moderate-income geographies exceeds the percentage of the population living in these geographies. Two of the bank's eight branch offices (25 percent) are in moderate-income census tracts. In comparison, 18.87 percent of the total population live in moderate-income census tracts.

Wilkes-Watauga Non-MSA AA

Piedmont Federal's community development services reflects adequate responsiveness to community development needs. One bank employee provided leadership and technical expertise to an affordable housing organization in the AA.

Piedmont Federal's branch offices are not in the moderate-income census tracts. While the bank does not have any branch offices in moderate-income census tracts, Piedmont's branch offices are in middle-income distressed census tracts. Approximately 68.10 percent of the total population live in moderate-income census tracts which are categorized as distressed due to poverty rates.

Responsiveness to Community Development Needs

The bank's CD activities reflect adequate responsiveness to community development needs of the Winston-Salem MSA and Wilkes-Watauga Non-MSA AAs. Piedmont's Federal's CD loans, qualified investments, and CD services had a positive impact on community development needs. During the evaluation period, the bank funded a significant number of affordable housing loans. Bank personnel provide technical expertise and leadership to a number of community organizations involved in affordable housing and social services targeted to LMI individuals. Piedmont Federal's qualified investments provided needed financial assistance to numerous community development organizations providing affordable housing and social services to LMI individuals.