



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

March 20, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First FSB of Lincolnton
Charter Number 705153

320 E Main St Lincolnton, NC 28092-3398

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.

First Federal Savings Bank of Lincoln performance rating is supported by the following factors:

- The bank's loan-to-deposit ratio is reasonable given the demographics and economic condition of the assessment area (AA), bank's financial conditions, and the availability of lending opportunities in the AA.
- The bank originates a majority of its loans inside the AA.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels.
- The geographic distribution of loans reflects more than reasonable dispersion throughout the AA.
- Community Development (CD) performance demonstrates adequate responsiveness to the CD 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

First Federal Savings Bank of Lincolnton (First Federal) is a federally chartered, mutual savings association headquartered in Lincolnton, North Carolina. As of December 31, 2016, First Federal's assets totaled \$372 million including \$246 million in home mortgage loans, representing 84 percent of total loans. Home mortgage loans are the bank's primary loan product, which aligns with the bank's traditional savings association operating strategy.

The bank operates four branch offices with the main office in Lincolnton, North Carolina and three branches located in Vale, Denver, and Boger City, North Carolina. There were no branch closures during the evaluation period; however, the Denver branch was relocated to a building 2 miles away that was previously occupied by a competing bank. The bank offers a variety of products and services including deposit accounts, savings accounts, consumer and commercial loans, mobile banking, and wire transfers. The operating hours and product offerings are consistent with the bank's competition.

Lincoln County MSA AA

First Federal's AA consists of Lincoln County, North Carolina. In 2015, Lincoln County was added to the Charlotte-Concord-Gastonia, North Carolina-South Carolina Metropolitan Statistical Area (MSA). Lincoln County consists of eighteen census tracts, none of which are low-income tracts. According to the 2010 U.S. Census data, there are seven moderate-income tracts, seven middle-income tracts, and four upper-income tracts. None of the census tracts in Lincoln County were excluded by the bank from its AA. The largest portion of the population in Lincoln County are upper-income families representing 34 percent of the families in the AA followed by low-income families at 26 percent. The median housing value and median family income for the AA are \$167,250 and \$61,974, respectively.

The table below provides key demographic information.

First Federal Savings Bank of Lincolnton Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	18	0.00	38.89	38.89	22.22
Population by Geography	78,265	0.00	42.66	39.65	17.69
Owner-Occupied Housing by Geography	22,418	0.00	39.17	41.76	19.07
Family Distribution by Income Level	21,824	26.00	19.06	20.85	34.09
2010 Census Median Family Income (MFI)		\$61,974	Median Housing Value		\$167,250
FFIEC Updated MSA MFI: 2016		\$64,100	Families Below Poverty Level		10%

Source: 2010 U.S. Census

According to the Federal Deposit Insurance Corporation's (FDIC) Deposit Market Share Report, as of June 30, 2016, there were ten financial institutions operating from 25 branch locations in Lincoln County. First Federal held the largest share of deposits in the market at \$308 million or 26 percent of total deposits. The two closest competitors were Carolina Trust Bank and Peoples Bank at 18 percent and 14 percent, respectively. While First Federal has held the majority of the deposits in the market throughout the evaluation period, its percentage of market share has declined from 29 percent as of June 30, 2014.

First Federal originated the largest number of Home Mortgage Disclosure Act (HMDA) reportable loans in 2015 out of the 203 lenders operating in the AA. According to the 2015 Peer HMDA Mortgage data, First Federal originated 131 or 6.38 percent of the 2,054 loans originated in AA in 2015. However, Wells Fargo originated the largest dollar amount of loans, totaling \$33.9 million or 8.03 percent of the aggregate origination amounts.

Economic conditions in Lincoln County are sound, according to the Lincoln Economic Development Association, and expected to improve as businesses continue to expand in or relocate to the county. Several foreign companies began operating in Lincoln County during the evaluation period from countries such as Germany and China. The top five employers in Lincoln County as December 31, 2015, were Lincoln County Schools, County of Lincoln, Charlotte Mecklenburg Hospital, RSI Home Products, and Wal-Mart Associates Inc. According to the U.S. Bureau of Labor Statistics, the annual unemployment rate in Lincoln County for 2015 was 5.4 percent compared to 5.8 percent for the state of North Carolina. Residential development is increasing in the county, primarily in the eastern half near Lake Norman. According to data from Lincoln County, of the 1,198 homes constructed in the county between January 2015 and February 2016, 94 percent are located east of US Highway 321.

There are no legal or financial factors impeding the bank's ability to meet the needs of the AA. First Federal rating at the preceding Community Reinvestment Act examination dated April 14, 2014 was "Outstanding".

Scope of the Evaluation

Evaluation Period/Products Evaluated

First Federal Savings Bank of Lincoln (First Federal) performance was evaluated under the Intermediate Small Bank Community Reinvestment Act (CRA). 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. Home mortgage loans includes home purchase, home improvement, and home mortgage refinance loans.

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. The evaluation period for the Community Development Test was limited to activities occurring from January 1, 2014 through March 20, 2017.

Data Integrity

In December 2016, we performed a data integrity examination to assess the data submitted by the bank under Home Mortgage Disclosure Act (HMDA) for the calendar years 2014 through 2016. We evaluated the bank's policies and procedures for ensuring the accurate and timely submission of HMDA data. We tested the accuracy of the bank's HMDA data by comparing the original documents in the bank's loan files to information reported on the HMDA Loan Application Register (LAR). Our review revealed that First Federal's HMDA data was accurate and reliable for the purposes of this CRA performance evaluation.

Selection of Areas for Full-Scope Review

First Federal's AA consists of Lincoln County, North Carolina. We performed a full scope review of the AA.

Ratings

The bank's overall rating is based primarily on those areas that received full-scope reviews. The bank's entire AA was subject to a full-scope review.

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

According to three separate community contacts, the eastern portion of the county is primarily populated by high-income families because of its proximity to Lake Norman. The western portion of Lincoln County is predominately rural farmland that is primarily populated by the low- and moderate-income families that work on the farms. The community contacts believe that most of the residents of eastern Lincoln County work in nearby Charlotte, NC but there is no statistical data to support that belief. The needs within the AA according to the community contacts are financial literacy training, consumer loans, mortgage loans for affordable housing, small business loans, and financial support in the form of donations or multi-year grants for local organizations that support low- and moderate-income families.

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 AA.

LENDING TEST

First 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 Lincoln County AA.

Loan-to-Deposit Ratio

First Federal's average loan-to-deposit ratio is reasonable considering the demographics and economic condition of the AA, bank's financial conditions, and the availability of lending opportunities in the AA. The bank's average LTD ratio for the twelve-quarter period since the preceding CRA examination in April 2014 is 96.58 percent. During the evaluation period, the bank's LTD ratio ranged from a high of 101.31 percent to a low of 90.42 percent. In comparison, the average LTD ratio for similarly situated financial institutions was 91.44 percent. The peer average ranged from a high of 96.13 percent to a low of 87.49 percent.

Lending in Assessment Area

First Federal originates a majority of its loans inside the AA. During the evaluation period, 62.84 percent of the total number and 60.48 percent of the total dollar amount of home mortgage loans were within the bank's AA. 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	580	62.84	343	37.16	923	98,202	60.48	64,156	39.52	162,358
Total	580	62.84	343	37.16	923	98,202	60.48	64,156	39.52	162,358

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

Lending to Borrowers of Different Incomes

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. As shown in the table below, the bank's level of loans to low-income borrowers is less than the percentage of low-income families in the AA. The lower level of lending to low-income borrowers is attributed to the poverty rate of 10 percent and the concentration of residential development in upper- and middle-income

census tracts. Despite the limitations, First Federal's percentage of loans to low-income borrowers exceeded the aggregate average of all other banks that originated loans to low-income borrowers in the AA. The percentage of loans to moderate-income borrowers was slightly less than the percentage of moderate-income families. While the aggregate average of loans to moderate-income borrowers originated by all other banks in the AA exceeded the respective percentage of moderate-income families.

Borrower Income Distribution of Home Mortgage Loans in Lincoln County AA				
Borrower Income Level	FSB of Lincoln		% 2015 Aggregate HMDA	% of Families Distribution
	Number of Loans	Percent of Loans		
Low	44	11.89%	9.21%	26.00%
Moderate	62	16.76%	21.88%	19.06%
Middle	88	23.78%	23.62%	20.85%
Upper	176	47.57%	45.29%	34.09%
Total	370	100.00%	100.00%	100.00%

Source: 2014-2016 HMDA Data, 2010 U.S. Census Data, and 2015 Aggregate HMDA Data

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA. As shown in the table below, the percentage of loans originated by First Federal in moderate-income census tracts significantly exceeded the percentage of owner-occupied housing units and aggregate average for all other financial institutions in the AA. There are no low-income census tracts in the AA.

Geographic Distribution of Home Mortgage Loans in Lincoln County AA				
Census Tract	FSB of Lincoln		% 2015 Aggregate HMDA	Distribution of OOHU*
	Number of Loans	Percent of Loans		
Low	0	0.00%	0.00%	0.00%
Moderate	216	52.55%	25.56%	39.17%
Middle	160	38.93%	41.97%	41.76%
Upper	35	8.52%	32.47%	19.07%
Total	411	100.00%	100.00%	100.00%

Source: 2014-2016 HMDA Data, 2010 U.S. Census Data, and 2015 Aggregate HMDA Data;
** Owner Occupied Housing Units*

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

First Federal's overall CD performance is rated "Adequate." The bank's CD performance demonstrates adequate responsiveness to the CD needs of the AA through CD loans, qualified investments, and CD services.

Number and Amount of Community Development Loans

The bank's CD lending activity reflects adequate responsiveness to community development needs in the AA. During the evaluation period, First Federal originated fifty-one community development loans totaling \$2,233,178. One of the loans, in the amount of \$300,000, was originated to an organization that solely serves the AA. This organization provides affordable single-family homes for low- and moderate-income families. The remaining fifty loans represent participations purchased through a regional lending consortium that provides financing for the construction of multifamily developments that were granted Federal Low Income Housing Tax credits. The consortium originates loans in a regional area that includes First Federal's AA.

The bank also has fifty-two qualified community development loans that were funded during prior evaluation periods and remain outstanding. The aggregate balance of these loans is \$1,024,834.

Number and Amount of Qualified Investments

The bank's level of qualified investments reflects adequate responsiveness to community development needs in the AA. First Federal made nine qualified donations and contributions, during the evaluation period, to four organizations totaling \$20,600. The largest aggregated contribution, \$12,800, went to an organization whose primary purpose is to provide food and emergency financial assistance to low- and moderate-income families in the assessment area who are in need. A portion of the funds was donated to support an organization that provides a week-long summer camp for low- and moderate-income children. The bank also made a \$500 contribution to a homeless shelter that serves the AA. Lastly, the bank donated \$100 to an organization, which provides affordable single-family homes for low- and moderate-income families.

Extent to Which the Bank Provides Community Development Services

The bank's CD services reflect adequate responsiveness to community credit needs in the AA. Qualified community development services during the evaluation period, consisted of a bank employee serving as President and board member for an organization whose primary purpose is to provide food and emergency financial assistance to low- and moderate-income families in the assessment area who are in need.

Responsiveness to Community Development Needs

The bank's community development activities demonstrate adequate responsiveness to the community development needs of the AA. The needs within the AA include financial literacy training, consumer loans, mortgage loans for affordable housing, small business loans, and financial support in the form of donations or multi-year grants for local organizations that support low- and moderate-income families. There was one community development loan and four contributions to organizations that operate in the AA. The majority of the qualified community development loans, \$1,933,178, were to an organization that serves a regional area that includes the AA. However, the aforementioned organization has not and currently has no future plans to develop in the AA. Additionally while several opportunities exist, the bank participated in one qualified community development activity.