



## **PUBLIC DISCLOSURE**

March 13, 2017

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Federal Savings Bank  
Charter Number 716195

300 N. Elizabeth Street, Floor 3e  
Chicago, IL 60607

Office of the Comptroller of the Currency

1700 East Golf Road, Suite 800  
Schaumburg, IL 60173

**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:**

**This institution is rated Satisfactory.**

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

The bank's overall rating is based on its state ratings and its bank-wide performance under the loan-to-deposit ratio and lending within its designated assessment area (AA) criteria.

- TFSB's loan-to-deposit ratio is more than reasonable and overall lending levels reflect satisfactory responsiveness to the AAs credit needs.
- While TFSB originated a substantial majority of its loans outside of its AAs; the bank's business strategy is to operate as a mortgage banking entity with a nationwide presence and market place. Taking the bank's business strategy into consideration the bank's performance under this lending criterion is deemed reasonable.
- Overall geographic distribution of home mortgage products reflects reasonable dispersion in low- and moderate-income areas and borrower distribution of home mortgage products reflects reasonable penetration among individuals of different income levels.

## 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

The Federal Savings Bank (TFSB) is a full service interstate savings bank headquartered in Chicago, IL. As of December 31, 2016 FSB had \$297 million in total assets and \$67 million in tier 1 capital. The bank is wholly owned by National Bancorp Holdings, Inc. (NBH), a one-bank holding company with consolidated assets of \$297 million. The bank offers a full range of financial products and services, including checking, savings, and money market accounts, certificates and jumbo certificates of deposit (CDs), individual retirement accounts (IRAs), residential real estate loans, consumer installment loans, consumer and business credit card loans (issued and serviced by a third party), and commercial loans. In addition to traditional home mortgage products, TFBSB also offers home mortgage loans that assist low- and moderate-income borrowers to obtain home ownership. Such products include first time home buyer programs and down payment assistance programs. These programs are through Illinois Housing Development Authority (IHDA), Federal Home Loan Bank, City of Chicago Tax Program, and Federal Housing Authority. As an example during the evaluation period TFBSB originated 72 loans representing \$5.8 million in IHDA loans.

As of December 31, 2016, TFBSB operates two full service retail branches and five ATMs. Branches are located in Chicago, IL and Lake Forest, IL. ATMs are located in Chicago, Lake Forest, and Naperville, IL; two are full service with 24-hour access, one is full service with limited access and two are cash dispensing only with limited access. TFBSB also operates 23 loan production offices (LPOs) in Illinois, Kansas, Arizona, Colorado, Florida, Maryland, Nevada, New Hampshire, New Jersey, New York, Ohio, Texas, and Virginia.

For the purpose of this evaluation period, TFBSB has defined two AAs in the state of Illinois and one AA in the state of Kansas. In Illinois the AAs include Cook and DuPage Counties, which are part of the Chicago-Naperville-Arlington Heights, IL Metropolitan Division (MD) (Chicago AA) and Lake County, IL a portion of the Lake County-Kenosha County, IL-WI MD (Lake County AA). In the state of Kansas, the AA consists of Johnson County, which is part of the Kansas City, MO-KS Metropolitan Statistical Area (MSA) (Johnson County AA). On April 20, 2015, TFBSB completed an acquisition of Baytree National Bank & Trust Co. (Baytree), which added approximately \$66 million in assets and one branch in Lake Forest, IL. On August 28, 2015, TFBSB sold their branch in Overland Park, KS and no longer have a retail branch presence in Kansas.

Competition is strong in TFBSB's AAs with numerous local, regional, and national banks as well as credit unions, mortgage companies, and non-bank lenders. According to the FDIC's June 30, 2016 Deposit Market Share Report 148 financial institutions operated 2,012 offices in the bank's defined Chicago AA and 39 financial institutions operated 201 offices in the bank's Lake County AA. According to the FDIC's June 30, 2015 Deposit Market Share Report 65 financial institutions operated 233 offices in the bank's Johnson County AA.

TFBSB operates as a mono-line mortgage operation with a nationwide presence and market place. The primary strategic focus of TFBSB is mortgage banking. The bank originates and sells mortgage loans, along with servicing rights, to various investors. During the evaluation period, TFBSB sold approximately 31 thousand loans totaling \$8.7 billion.

As of December 31, 2016, the loan portfolio totaled \$240 million, and represented 80.8 percent of the bank's total assets. Composition of TFSB's loan portfolio is illustrated in the following table:

<b>Loan Portfolio Summary by Loan Product December 31, 2016</b>		
<b>Loan Category Description</b>	<b>Dollar Amount \$000 Omitted</b>	<b>Percent of Outstanding Dollars</b>
Real Estate Loans	\$237,716	99.00
Commercial and Industrial Loans	1,822	0.80
Consumer Loans	499	0.20

Source: 12/31/2016 Call Report

TFSB has the resources and financial strength to meet the credit needs of its communities. There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its AA. TFSB received a "Satisfactory" rating on the prior CRA Performance Evaluation dated January 7, 2014.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

We evaluated TFSB using the Small Bank evaluation procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. To evaluate the bank's lending performance, for the Chicago AA and Lake County AA we analyzed home purchase and home refinance loans, for the period of January 1, 2014 through December 31, 2016. For the Johnson County AA we analyzed home refinance lending for the period January 1, 2014 through August 28, 2015. Home improvement lending is not a primary product offering of the bank and the volume of home improvement lending was minimal, therefore, analysis would not be meaningful. For the purpose of this evaluation period, data was analyzed using the 2010 Census data.

### Data Integrity

As part of our ongoing supervision of the bank, we tested the accuracy of the bank's HMDA lending data. Our testing indicated no substantive inaccuracies in the data. Therefore, we concluded that the 2014, 2015, and 2016 home mortgage loan data could be relied upon for this evaluation.

### Selection of Areas for Full-Scope Review

We performed full-scope reviews for each AA. Our evaluation focused on TFSB's lending performance to low- and moderate-income borrowers in the AAs as compared to the

aggregate industry percentage distribution. We also compared TFSB's borrower lending performance to the level of low- and moderate-income families within the AAs. We also focused on TFSB's lending in low- and moderate-income geographies as compared to the aggregate industry percentage distribution to those geographies. We also compared TFSB's geographic lending performance to the percentage of owner occupied housing units in those geographies.

## **Ratings**

The bank's overall rating is based on those areas that received full-scope reviews. We gave more weight to the bank's lending performance in the state of Illinois since it includes 99 percent of HMDA loan originations during the evaluation period and remains the bank's only retail presence. Further, the Chicago AA received the greatest weight in the analysis as a majority of the bank's lending (95 percent) was in this AA. It is noted that the Lake County AA was only added with the purchase of Baytree in April 2015 and the bank's branch in the Johnson County AA was sold in August 2015.

## **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.

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 Criteria

### Loan-to-Deposit Ratio

TFSB's quarterly average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs.

TFSB's quarterly loan-to-deposit average exceeds other similarly situated community banks of similar size, location, and product offerings. TFSB ranks highest of eleven similarly situated financial institutions. The average quarterly loan-to-deposit ratio for the eleven similarly situated financial institutions during the evaluation period was 84 percent. These institutions are also community banks located in Cook and Lake Counties in Illinois. These financial institutions have total assets ranging from \$194 million to \$488 million. TFSB's quarterly average loan-to-deposit ratio for the period of January 1, 2014, through December 31, 2016, was 112 percent. During this period, TFSB had a quarterly low of 87 percent and a quarterly high of 133 percent. TFSB's loan-to-deposit ratio has been trending upward since the prior CRA evaluation to its current level. TFSB's loan-to-deposit ratio is the highest in the peer group for 9 out of 12 quarters under evaluation.

### Lending in Assessment Area

For the combined three-year evaluation period, TFSB originated a substantial majority of all loan products outside the bank's AAs. For all reportable loan products, only 15.80 percent in number, and 13.40 percent by dollar were made inside TFSB's AAs. The overall ratio is attributable the bank's established business strategy to operate a nationwide mortgage lending operation with an extensive wholesale broker network and 20 loan production offices, located primarily outside of TFSB's AAs. This nationwide lending activity provides the bank the ability to return liquidity more quickly to the market allowing for additional capacity to lend including flexible home mortgage products, such as first time home buyer programs. Taking the bank's business strategy into consideration the bank's performance under this lending criterion is deemed reasonable.

## **State Rating**

### **State of Illinois**

**CRA rating for the State of Illinois is: Satisfactory**

**The lending test is rated: Satisfactory**

- The distribution of loans reflects reasonable penetration to borrowers of different income levels and businesses of different sizes throughout the Chicago AA, and Lake County AA.
- The geographic distribution of loans reflects excellent dispersion throughout the AA's in geographies of different income levels given the bank's product offerings and local economic conditions.

### **Description of Institution's Operations in State of Illinois**

As of December 31, 2016, TFSB operates two full service retail branches and five ATMs. The two full service retail branches are located in Chicago, IL and Lake Forest, IL. ATMs are located in Chicago, Lake Forest, and Naperville, IL; two are full service with 24-hour access, one is full service with limited access and two are cash dispensing only with limited access.

Competition is strong in TFSB's AAs with numerous local, regional, and national banks as well as credit unions, mortgage companies, and non-bank lenders. According to the FDIC's June 30, 2016 Deposit Market Share Report 148 financial institutions operate 2,012 offices in the bank's defined Chicago AA and 39 financial institutions operate 201 offices in the bank's Lake County AA.

The Chicago AA consists of 1,534 geographies located within the Chicago-Naperville-Arlington Heights, IL MD. The bank's main office is located in an upper-income geography. Based on the 2010 Census data, the Chicago AA included geographies that were designated low-income (15.19 percent), moderate-income (24.58 percent), middle-income (30.44 percent), upper-income (29.53 percent), and two geographies with no income classification (0.26 percent). TFSB revised their AA with the Lake Forest, IL branch opening in April 2015. Changes to the AA include adding all of Lake County, IL geographies, and eliminating Will County, IL. Other changes in the AA were due to changes instituted by the 2014 Office of Management and Budget (OMB) MA geographic boundary revisions. The AA is consistent with the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies. TFSB ranks 59<sup>th</sup> in deposit market share of the 124 financial institutions within Cook County, IL, and ranks 40<sup>th</sup> out of 219 financial institutions within Lake County, IL, according to the June 30, 2016, Federal Deposit Insurance Corporation (FDIC) Market Share Report.

The following tables provides data from the Illinois AAs and outlines demographic information about the bank’s AAs using 2010 Census data.

Demographic Information for Full Scope Area: TFSB –Chicago AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1,534	15.19	24.58	30.44	29.53	0.26
Population by Geography	6,111,599	10.97	25.36	33.16	30.51	0.00
Owner-Occupied Housing by Geography	1,425,345	4.95	19.36	37.18	38.51	0.00
Business by Geography	338,241	5.21	16.51	31.30	46.82	0.15
Farms by Geography	3,882	3.81	16.51	35.37	44.31	0.00
Family Distribution by Income Level	1,441,250	24.58	17.08	18.76	39.58	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	600,497	18.58	35.12	31.53	14.77	0.00
Median Family Income (MFI) FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		72,196 74,700 13%	Median Housing Value Unemployment Rate (2010 US Census)		297,508 5.60%	

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

Demographic Information for Full Scope Area: TFSB –Lake County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	153	5.88	19.61	32.68	40.52	1.31
Population by Geography	703,462	4.51	20.72	35.48	38.67	0.63
Owner-Occupied Housing by Geography	187,452	2.39	16.16	37.75	43.70	0.00
Business by Geography	41,724	1.55	12.78	34.21	51.45	0.01
Farms by Geography	1,062	2.07	16.85	40.40	40.68	0.00
Family Distribution by Income Level	178,072	18.48	16.77	21.12	43.63	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	62,762	8.57	33.66	37.04	20.71	0.01
Median Family Income (MFI) FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		86,241 85,000 7%	Median Housing Value Unemployment Rate (2010 US Census)		326,456 5.60%	

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

## **Scope of Evaluation in State of Illinois**

We performed a full-scope review in both the Chicago AA, and Lake County AA. We analyzed home purchase and home refinance loans, reported under the HMDA for each year in the evaluation period of January 1, 2014 through December 31, 2016. Home improvement lending is not a primary product offering of the bank therefore we did not perform a separate analysis. The Chicago AA received the greatest weight in the analysis as the majority of the bank's lending (95 percent) was in this AA.

Through our community contact program, we identified the banking needs of the Chicago AA and Lake County AA. We conducted three community contacts in the Chicago AA, and one contact in the Lake County AA. All of the contacts in the Chicago AA indicated unmet credit needs exist in the community. The contacts noted a number of needs: affordable home mortgages for LMI homebuyers; bank volunteers to teach at home buying and similar seminars; and loans to for-profit owners to purchase and rehab 1-4 unit properties in LMI areas for affordable housing. The community contact for Lake County AA indicated unmet credit needs exist in Lake County, IL. The contact noted a number of needs including bank branches, small business loans of less than \$100 thousand and loans to small businesses, flexible home mortgages, cash in-kind and volunteer support for HUD-approved housing counselors, second chance checking accounts, credit builder loans, and secured credit cards.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN: Illinois**

### **LENDING TEST**

The Lending Test is rated Satisfactory.

- Overall the distribution of loans reflects reasonable penetration to borrowers of different income levels throughout the Chicago AA, and Lake County AA.
- Overall the geographic distribution of loans reflects reasonable dispersion throughout the AA's in geographies of different income levels given the bank's product offerings and local economic conditions.

### **Lending to Borrowers of Different Incomes**

Overall borrower distribution in the Chicago AA is reasonable.  
Overall borrower distribution in the Lake County AA is reasonable.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Chicago AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Purchase	24.58	10.04	17.08	29.07	18.76	27.67	39.58	33.22
Aggregate Lending Data Home Purchase		8.46		22.22		23.40		45.92
Home Refinance	24.58	3.67	17.08	15.47	18.76	23.70	39.58	57.16
Aggregate Lending Data Home Refinance		5.67		13.67		21.92		58.74

Source: Data reported under HMDA; U.S. Census data.

Overall borrower distribution in the Chicago AA is reasonable with poor lending performance to low-income borrowers and excellent lending penetration with moderate-income borrowers. In comparison to aggregate lending in the bank's Chicago AA overall the bank's lending to low-income borrowers is adequate and the bank's lending to moderate-income borrowers is excellent.

In evaluating the borrower distribution of home mortgage loans, we considered the number of households that live below the poverty level, unemployment, and housing prices. The poverty level and the unemployment rates are barriers that have a potential negative effect on home ownership and credit-worthiness. The City of Chicago is a relatively high-cost housing area, limiting access to affordable home ownership especially among low-income borrowers. The median housing value in the Chicago AA is \$297,508, according to the 2016 FFIEC. One method used to determine housing affordability assumes a maximum monthly principal and interest payment of no more than 30.00 percent of an applicant's income. For example, a low-income borrower making \$37,350 per year (or less than 50.00 percent of the 2016 FFIEC adjusted median family income in the AA) could afford a \$180,000 mortgage with a payment of \$966 per month assuming a 30-year mortgage with a five percent interest rate, and not accounting for a down payment, homeowners insurance, real estate taxes, or any additional monthly expenses. This illustrates that a low-income borrower would be challenged to qualify for a mortgage loan in the AA. We considered this information in our analysis of borrower distribution by income level of the borrower for home mortgage lending.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Lake County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Purchase	18.48	5.76	16.77	14.39	21.12	26.62	43.63	53.24
Aggregate Lending Data Home Purchase		12.89		20.55		21.73		44.82
Home Refinance	18.48	1.30	16.77	3.90	21.12	15.58	43.63	79.22
Aggregate Lending Data Home Refinance		5.33		11.96		20.53		62.17

Source: Data reported under HMDA; U.S. Census data.

Overall borrower distribution in the Lake County AA is reasonable with poor lending performance to low-income borrowers and good lending penetration with moderate-income borrowers. In comparison to aggregate lending in the bank's Lake County AA overall the bank's lending to low-income borrowers is poor and the bank's lending to moderate-income borrowers is adequate.

In evaluating the borrower distribution of home mortgage loans, we considered the number of households that live below the poverty level, unemployment, and housing prices. The poverty level and the unemployment rates are barriers that have a potential negative effect on home ownership and credit-worthiness. The Lake County AA is a relatively high-cost housing area, limiting access to affordable home ownership especially among low-income borrowers. The median housing value in the Lake County AA is \$326,456, according to the 2016 FFIEC. One method used to determine housing affordability assumes a maximum monthly principal and interest payment of no more than 30.00 percent of the applicant's income. For example, a low-income borrower making \$43,120 per year (or less than 50.00 percent of the 2016 FFIEC adjusted median family income in the AA) could afford a \$326,456 mortgage with a payment of \$1,752 per month assuming a 30-year mortgage with a five percent interest rate, and not accounting for down payment, homeowners insurance, real estate taxes, or any additional monthly expenses. This illustrates that a low-income borrower would be challenged to qualify for a mortgage loan in the AA. We considered this information in our analysis of borrower distribution of income level of the borrower for home mortgage lending.

### Geographic Distribution of Loans

Overall geographic distribution in the Chicago AA is excellent.  
Overall geographic distribution in the Lake County AA is poor.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Chicago AA</b>								
CensusTract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	4.95	5.23	19.36	24.42	37.18	38.32	38.51	32.04
Aggregate Lending Data Home Purchase		3.44		15.43		36.61		44.52
Home Refinance	4.95	3.27	19.36	13.38	37.18	38.40	38.51	44.95
Aggregate Lending Data Home Refinance		2.94		12.30		32.86		51.90

Source: Data reported under HMDA; U.S. Census data.

Overall geographic distribution in the Chicago AA is excellent with excellent lending performance in both low- and moderate-income geographies for home purchase loans and good lending penetration in both low- and moderate-income geographies for home refinance loans. In comparison to aggregate lending in the bank’s Chicago AA overall the bank’s lending in both low- and moderate-income geographies is excellent for both home purchase and home refinance lending.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Lake County AA</b>								
CensusTract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	2.39	0.72	16.16	8.63	37.75	43.17	43.70	47.48
Aggregate Lending Data Home Purchase		1.27		13.64		41.48		43.62
Home Refinance	2.39	0.00	16.16	5.56	37.75	33.33	43.70	61.11
Aggregate Lending Data Home Refinance		0.90		8.37		33.60		57.12

Source: Data reported under HMDA; U.S. Census data.

Overall geographic distribution in the Lake County AA is poor with poor lending performance in both low- and moderate-income geographies for home purchase and home refinance loans. In comparison to aggregate lending in the bank’s Lake County AA overall the bank’s lending in both low- and moderate-income geographies is also poor for both home purchase and home refinance lending.

TFSB is new to the Lake County AA having entered the market mid-way through the evaluation period. According to the most current (2015) FDIC Loan Market Share Report for

the AA, TFSB ranks 144th out of 470 financial institutions with a market share of 0.38 percent. The top 12 institutions in this report are large regional institutions representing more than 33 percent of the AA loan market share.

### **Responses to Complaints**

TFSB did not receive any complaints regarding its performance in helping to meet the credit needs within its AA during this evaluation period.

## **State Rating**

### **State of Kansas**

#### **CRA rating for the State of Kansas: Satisfactory**

#### **The lending test is rated: Satisfactory**

- The distribution of loans reflects good penetration to borrowers of different income levels in the Johnson County AA.
- The geographic distribution of loans reflects poor dispersion throughout the AA in geographies of different income levels.
- In reaching our overall lending test rating for the State of Kansas we did take into consideration that mortgage lending opportunities are limited especially in low-income census tracts with only 423 owner-occupied housing units in the low-income census tracts. It is also noted that the moderate-income census tracts have less than eight percent of the AA's owner-occupied housing units. Mortgage lending competition is strong in the Johnson County AA as 2015 market share reports reflect over 300 mortgage lenders reporting originations in the county.

### **Description of Institution's Operations in Kansas**

For the purpose of this evaluation period, TFSB defined one AA in the state of Kansas. In the state of Kansas, the AA consisted of Johnson County, which is part of the Kansas City, MO-KS Metropolitan Statistical Area (MSA) (Johnson County AA). On August 28, 2015, TFSB sold their branch in Overland Park, KS and no longer has a retail branch presence in Kansas.

### **Scope of Evaluation in State of Kansas**

We performed a full-scope review of the Johnson County AA. We analyzed only home refinance loans, under the HMDA reported under the CRA. The Johnson County AA had minimal impact in the overall CRA performance. In a strategic decision, TFSB exited the market through the sale of their only branch in the state of Kansas effective August 28, 2015; therefore, this limited analysis is only for the period of January 1, 2014 through August 28, 2015. During this period of review, TFSB originated a total of 43 home mortgage loans representing only one percent of total home mortgage loans originated in the bank's defined AAs during the entire evaluation period. We did not analyze home purchase lending as only one home purchase loan was originated during the effective evaluation period. Also as home improvement lending is not a primary product offering of the bank, we did not perform a separate analysis for home improvement lending.

Competition is noted to be high in the Johnson County AA. According to the FDIC's June 30, 2015 Deposit Market Share Report 65 financial institutions operated 233 offices in the bank's defined Johnson County AA.

We did not conduct a community contact as the bank exited this market with the sale of the branch in August 2015. We reviewed prior Public Evaluations and no unique credit needs had been identified for this AA.

The Johnson County AA consisted of 130 geographies located within the Kansas City, MO-KS MSA. Based on the 2010 Census data, the AA included geographies that were designated low-income (0.77 percent), moderate-income (11.54 percent), middle-income (29.23 percent), upper-income (56.15 percent), and three geographies with no income classification (2.31 percent). For the purpose of this evaluation period, data was analyzed using the 2010 Census data. According to the June 30, 2015 FDIC Deposit Market Share Report, TFSB market share was 0.21 percent in Johnson County.

Local economic conditions improved since the prior CRA evaluation. The 2015 unemployment of 3.4 percent is lower than the state average (4.2 percent) and the national average (5.3 percent.)

The following tables provides data from the Kansas AA and outlines demographic information about the bank's AA using 2010 Census data.

Demographic Information for Full Scope Area: TFSB - Johnson Co						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	130	0.77	11.54	29.23	56.15	2.31
Population by Geography	544,179	0.68	10.13	28.43	60.75	0.01
Owner-Occupied Housing by Geography	151,234	0.28	7.54	27.86	64.32	0.00
Business by Geography	43,426	0.55	9.00	23.24	63.90	3.30
Farms by Geography	1,015	0.20	7.78	29.56	61.97	0.49
Family Distribution by Income Level	143,509	10.75	13.05	20.10	56.11	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	34,148	1.71	21.80	38.63	37.86	0.00
Median Family Income (MFI)		68,846	Median Housing Value		224,105	
FFIEC Adjusted Median Family Income for 2016		72,500	Unemployment Rate (2010 US Census)		3.40%	
Households Below Poverty Level		5%				

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

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN: Kansas

### LENDING TEST

The Lending Test is rated Satisfactory.

- Overall the distribution of home refinance reflects good penetration to borrowers of different income levels throughout the Johnson County AA.
- Overall the geographic distribution of home refinance reflects poor dispersion throughout the AA in geographies of different income levels given the bank's product offerings and local economic conditions.
- In reaching our overall lending test rating for the State of Kansas we did take into consideration that mortgage lending opportunities are limited especially in low-income census tracts with only 423 owner-occupied housing units in the low-income census tracts. It is also noted that the moderate-income census tracts have less than eight percent of the AA's owner-occupied housing units. Mortgage lending competition is strong in the Johnson County AA as 2015 market share reports reflect over 300 mortgage lenders reporting originations in the county.

### Lending to Borrowers of Different Incomes

Overall borrower distribution in the Johnson County AA is reasonable.

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
Home Refinance	10.75	0.00	13.05	25.00	20.10	37.50	56.11	37.50
Aggregate Lending Data Home Refinance		5.14		13.67		23.46		57.74

Source: Indicate source, i.e., loan sample or data reported under HMDA; U.S. Census data.

Overall borrower distribution in the Johnson County AA is good. While no home refinance loans were originated to low-income borrowers, home refinance lending reflected excellent lending performance to moderate-income borrowers. In comparison to aggregate lending for the Johnson County AA the bank's aggregate lending performance matched the bank's demographic performance conclusions stated above.

It should be noted that lending volumes were low for both home purchase and home refinance lending in the Johnson County AA as the bank was in process of and sold its retail banking operations in Kansas during this evaluation period. One home purchase loan was originated during the evaluation period prior to the sale of the bank’s branch and only 42 home refinance loans were originated during that time.

**Geographic Distribution of Loans**

Overall geographic distribution in the Johnson County AA is poor.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Johnson County AA								
CensusTract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Home Refinance	0.28	0.00	7.54	2.38	27.86	26.19	64.32	71.43
Aggregate Lending Data Home Refinance		0.13		5.56		22.97		71.34

Source: Indicate source, i.e., loan sample or data reported under HMDA; U.S. Census data.

Overall geographic distribution in the Johnson County AA is poor. The bank’s lending performance is well below the percentage of owner-occupied housing units and aggregate lending in both low- and moderate-income geographies.

**Responses to Complaints**

TFSB did not receive any complaints regarding its performance in helping to meet the credit needs within its AA during this 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”).

<b>Time Period Reviewed</b>	Lending Test: December 31, 2014 to December 31, 2016	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
The Federal Savings Bank (TFSB) Chicago, IL	Residential Home Purchase and Home Refinance Loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
NA		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
State of Illinois Chicago-Naperville-Arlington Heights MD #16974	Full-Scope	All geographies Cook, and DuPage Counties, Illinois
Lake County-Kenosha County IL- WI MD #29404	Full-Scope	All geographies Lake County, Illinois
State of Kansas Kansas City MO-KS MSA #28140	Full-Scope	All geographies Johnson County, Kansas

# Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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RATINGS	BANK NAME
Overall Bank:	Lending Test Rating
The Federal Savings Bank	Satisfactory
State:	
Illinois	Satisfactory
Kansas	Satisfactory