



## **PUBLIC DISCLOSURE**

March 11, 2019

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

First Federal Savings and Loan Association  
Charter Number 706517

479 Main Street  
Hazard, Kentucky 41701-1776

Office of the Comptroller of the Currency

10200 Forest Green Blvd  
Suite 501  
Louisville, Kentucky 40223

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## Table of Contents

<b>OVERALL CRA RATING .....</b>	<b>3</b>
<b>DEFINITIONS AND COMMON ABBREVIATIONS .....</b>	<b>4</b>
<b>DESCRIPTION OF INSTITUTION .....</b>	<b>8</b>
<b>SCOPE OF THE EVALUATION.....</b>	<b>8</b>
<b>DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....</b>	<b>10</b>
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS.....</b>	<b>11</b>
<b>LENDING TEST .....</b>	<b>11</b>
<b>APPENDIX A: SCOPE OF EXAMINATION.....</b>	<b>A-1</b>
<b>APPENDIX B: COMMUNITY PROFILES FOR FULL-SCOPE AREAS.....</b>	<b>B-1</b>
<b>APPENDIX C: TABLES OF PERFORMANCE DATA .....</b>	<b>C-1</b>

## Overall CRA Rating

The institution is rated: **Satisfactory.**

First Federal Savings and Loan Association (First Federal or Bank) has a **satisfactory** record of meeting credit needs of its community. This conclusion is based on the following.

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

The major factors supporting the rating for First Federal include the following:

- First Federal's loan-to-deposit (LTD) ratio is more than reasonable.
- The distribution of loans to low- and moderate-income individuals reflects reasonable penetration.
- The geographic distribution of loans reflects more than reasonable dispersion within moderate-income CTs.

## 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 (AA).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Description of Institution**

First Federal is an intrastate, stock savings association headquartered in Hazard, Kentucky. It is a majority owned (55 percent) subsidiary of Kentucky First Federal Bancorp (KFFB), a multi-thrift holding company located in Frankfort, Kentucky. KFFB is a publically traded holding company.

The Bank operates one office in Hazard, Kentucky. An Automated Teller Machine is also available at the Bank's location. Primary loan products include loans secured by 1-4 family, multi-family, and commercial real estate. The bank also purchases a high volume of loans originated by their sister bank, First Federal Savings Bank of Kentucky, Frankfort, Kentucky. Deposit offering include passbook savings, certificates of deposit, and individual retirement accounts. The Bank does not offer traditional checking accounts.

As of December 31, 2018, the Bank had \$78.5 million in total assets, with \$71.8 million in total loans. Tier 1 capital totaled 18.7 million with a tier 1 leverage ratio of 24.1 percent. Net loans totaled 89.9 percent of average assets. First lien 1-4 family residential mortgage loans equal 82.7 percent of total loans at year-end 2018. Loans secured by multi-family residential property (7.3 percent), commercial real estate (6.6 percent), and loans to individuals (1.7 percent) represent the next largest segments of the Bank's loan portfolio.

Local competition is high for the area and includes four commercial banks, two of which are headquartered in Perry County. June 30, 2018 Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Reports indicate First Federal was fourth in deposit market share at 7.5 percent. First Federal has designated a single AA which consists entirely of Perry County, Kentucky. The AA is appropriate and does not arbitrarily exclude low- or moderate-income CTs.

There are no legal or financial circumstances that impact the Bank's ability to meet the credit needs of its community. The Office of the Comptroller of the Currency (OCC) performed the last CRA evaluation beginning March 31, 2014. The Bank received a satisfactory rating.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

We evaluated First Federal's CRA performance using the OCC's Small Bank CRA Examination Procedures. These procedures assess an institution's record of meeting credit needs through its lending activities.

The CRA evaluation covers the period since the previous CRA Examination, through December 31, 2018. The primary lending product for this time period was residential

real estate loans, based on the number and dollar volume of the loan origination data supplied by the Bank.

To assess performance, we selected a sample of 20 residential real estate loans originated or purchased between January 1, 2016 and December 31, 2018. We compared the Bank's lending performance with demographic data from the FDIC deposit market share report as of June 30, 2018, Bureau of Labor Statistics data, and 2010 United States Census as part of our analysis. Please refer to *appendix A: Scope of Examination* and *appendix B: Community Profiles for Full-Scope Area* for more information on the scope of the examination.

## **Ratings**

The bank's overall rating was based primarily on residential real estate lending performance within the AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

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

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

# Conclusions with Respect to Performance Tests

## LENDING TEST

First Federal's performance under the lending test is satisfactory.

- The LTD is more than reasonable.
- The Bank originated or purchased a substantial majority of loans outside the AA.
- First Federal's distribution of loans to low- and moderate-income borrowers reflects reasonable penetration.
- The Bank's geographic distribution of loans among moderate-income CTs reflects more than reasonable dispersion.

## Loan-to-Deposit Ratio

First Federal's LTD ratio is more than reasonable given the Bank's size, financial condition, and market area. Over the last 16 quarters, the LTD ratio averaged 122.3 percent with a quarterly high of 151.9 percent and a quarterly low of 100.99 percent. We compared these metrics to two other similarly situated banks in the AA with averages of 90.9 and 80.6 percent over the same period.

## Lending in Assessment Area

Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	5	25.00	15	75.00	20	\$244	8.99	\$2,466	91.01	\$2,710

*Source: A random sample of home mortgage loans originated between January 1, 2016 and December 31, 2018*

First Federal originated or purchased a substantial majority of home mortgage loans outside the AA. We selected a sample of 20 home mortgage loans originated or purchased over the three-year assessment period. The results are shown in the table above. Over the three-year assessment period, the Bank originated or purchased 25.0 percent of home mortgage loans, by number, within their designated AA. The low in/out ratio is primarily due to the volume of loans the Bank purchases from their sister Bank, and the lack of loan demand in the AA. Based on dollar amount, and using Bank-prepared data, purchased loans represented 72.4 of all loans originated and purchased for the years 2016 through 2018.

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

First Federal's distribution of residential real estate loans to low- and moderate-income borrowers during the evaluation period reflects reasonable penetration. The Bank originated 20 percent of its home mortgage loans to moderate-income borrowers. This compares favorably to the aggregate HMDA comparator of 14.9 percent and demographic comparator of 15.7 percent. The Bank did not originate any loans in our sample to low-income borrowers. The aggregate HMDA comparator for low-income families was 4.1 percent with a demographic comparator of 28.8 percent. Opportunities to originate home mortgage loans to low- and moderate-income borrowers are limited due to the demographics of the AA. According to the most recent census information, 21.9 percent of families within the AA live below the poverty level. That is equal to nearly 80 percent of all low-income families. In addition, 44.0 percent of all households in the AA receive social security benefits. Also impacting the ability to originate home purchase loans is the availability and affordability of rental units. Within the AA, 24.3 percent of all housing are rental units.

First Federal participates with a local community development organization to offer loans to low-income families who would not normally qualify for conventional loan products. Participation during the evaluation period was limited due to the lack of borrowers who meet the program criteria.

Refer to Table E in appendix C for the facts and data used to evaluate the bank's lending to borrowers of different incomes.

## **Geographic Distribution of Loans**

The geographic distribution of residential real estate loans reflects more than reasonable dispersion among moderate-income tracts in the AA. The Bank originated 30.0 percent of its residential real estate loans in moderate-income CTs. This is above both the demographic comparator of 23.9 percent and the HMDA aggregate comparator of 22.1 percent. The AA does not have any low-income CTs.

Refer to Table D in appendix C for the facts and data used to evaluate the geographic distribution of the bank's loan originations and purchases. We analyzed the Bank's residential lending activity and did not identify any unexplained, conspicuous lending gaps in the AA.

## **Responses to Complaints**

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

# Appendix A: Scope of Examination

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

<b>Time Period Reviewed</b>	Lending Test: January 1, 2016 to December 31, 2018	
<b>Financial Institution</b>		<b>Products Reviewed</b>
First Federal Savings and Loan Association Hazard, Kentucky		Residential Real Estate Loans
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
Not applicable	Not applicable	Not applicable
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Kentucky - Perry County – Non-MSA	Full Scope	

## Appendix B: Community Profiles for Full-Scope Areas

Demographic Information of the Assessment Area						
Assessment Area: Perry Co KY						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	8	0.0	25.0	62.5	12.5	0.0
Population by Geography	28,041	0.0	27.5	60.7	11.8	0.0
Housing Units by Geography	12,775	0.0	25.2	65.4	9.4	0.0
Owner-Occupied Units by Geography	7,981	0.0	23.9	65.3	10.8	0.0
Occupied Rental Units by Geography	3,099	0.0	30.4	64.2	5.5	0.0
Vacant Units by Geography	1,695	0.0	22.4	67.8	9.9	0.0
Businesses by Geography	1,555	0.0	33.1	61.7	5.3	0.0
Farms by Geography	18	0.0	38.9	55.6	5.6	0.0
Family Distribution by Income Level	7,809	27.5	16.2	17.0	39.3	0.0
Household Distribution by Income Level	11,080	28.6	16.7	13.3	41.4	0.0
Median Family Income Non-MSAs - KY		\$45,920	Median Housing Value			\$70,072
			Median Gross Rent			\$530
			Families Below Poverty Level			21.9%

Source: 2010 U.S. Census & 2015 ACS Census and 2018 D&B Data  
 Due to rounding, totals may not equal 100.0  
 (\*) The NA category consists of geographies that have not been assigned an income classification.

The Bank has one AA consisting of Perry County, Kentucky. No portion of Perry County is designated as a MSA. The AA is appropriate in relation to the location of the Bank’s office and does not arbitrarily exclude any low- or moderate-income areas. Perry County is located in rural, eastern Kentucky and consists of eight CTs. For the evaluation period, the AA had two moderate-income, five middle-income, and one upper-income CT.

Perry County was designated as a distressed and underserved nonmetropolitan middle-income geography during the evaluation period. The designation reflects local economic conditions, including unemployment and poverty. Perry County’s unemployment rate was 5.2 percent compared to the state average of 4.3 percent, as of November 2018. The population in 2017 was 26,553, a decreasing trend from 28,111 in 2013.

Major area employers include Hazard Appalachian Regional Healthcare Medical Center, Sykes Enterprises Inc., and Hazard Community and Technical College. Education and health services along with trade, transportation, and utilities support the employment base in the area.

The level of local competition is high for the area and includes four other commercial banks, two of which are headquartered in Perry County. As of the June 30, 2018 FDIC Deposit Market Share Report, First Federal was fourth in deposit market share at 7.5 percent.

A community contact familiar with the AA identified a need for employment opportunities and overall economic growth. The area has been economically distressed for years related to declines in the coal industry across Appalachia. The contact indicated the banks in the area meet community credit needs reasonably well.

## Appendix C: Tables of Performance Data

Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
Perry Co. KY	20	\$1,734	--	195	0.0	0.00	0.0	23.9	30.00	22.1	65.3	50.00	68.2	10.8	20.00	9.7	0.0	0.00	0.0
<b>Total</b>	<b>20</b>	<b>\$1,734</b>	<b>--</b>	<b>195</b>	<b>0.0</b>	<b>0.00</b>	<b>0.0</b>	<b>23.9</b>	<b>30.00</b>	<b>22.1</b>	<b>65.3</b>	<b>50.00</b>	<b>68.2</b>	<b>10.8</b>	<b>20.00</b>	<b>9.7</b>	<b>0.0</b>	<b>0.00</b>	<b>0.0</b>

*Source: 2010 U.S. Census; 01/01/2016 - 12/31/2018 Bank Data, 2018 HMDA Aggregate Data, "--" data not available.  
Due to rounding, totals may not equal 100.0*

Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
Perry Co. KY	20	\$1,734	--	195	28.8	0.00	4.1	15.7	20.00	14.9	16.7	15.00	19.5	38.8	65.00	48.7	0.0	0.00	12.8
<b>Total</b>	<b>20</b>	<b>\$1,734</b>	<b>--</b>	<b>195</b>	<b>28.8</b>	<b>0.00</b>	<b>4.1</b>	<b>15.7</b>	<b>20.00</b>	<b>14.9</b>	<b>16.7</b>	<b>15.00</b>	<b>19.5</b>	<b>38.8</b>	<b>65.00</b>	<b>48.7</b>	<b>0.0</b>	<b>0.00</b>	<b>12.8</b>

*Source: 2010 U.S. Census ; 01/01/2016 - 12/31/2018 Bank Data, 2018 HMDA Aggregate Data, "--" data not available.  
Due to rounding, totals may not equal 100.0*