



PUBLIC DISCLOSURE

February 13, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Savings & Loan Association
Charter Number 705957

903 Jackson Ave
Pascagoula, MS 39567-4346

Office of the Comptroller of the Currency
3838 North Causeway Blvd. Suite 2890
Metairie, LA 70002-8105

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

- First Federal Savings & Loan Association’s (First Federal or the bank) loan-to-deposit ratio is more than reasonable relative to the bank’s size, competition, and financial condition.
- The bank originates the majority of its loans within its assessment area (AA).
- First Federal exhibits a reasonable penetration of loans to borrowers of different incomes.
- The bank exhibits reasonable dispersion of loans within this AA.
- First Federal did not receive any Community Reinvestment Act complaints during the review period.

SCOPE OF EXAMINATION

We evaluated First Federal's CRA performance utilizing the Interagency Small Bank CRA procedures, which focus on the analysis of the bank's primary loan products. As discussed in the table below, the bank's loan portfolio is primarily comprised of residential real estate loans, at 98.57 percent. All remaining loan categories comprise 1.43 percent of the overall loan portfolio.

First Federal Savings & Loan Association Loan Portfolio		
Loan Category	Dollars (000)	Percentage
1-4 Residential Properties – Closed-End	219,805	96.03
1-4 Residential Properties – Open-End	5,824	2.54
All Other (Construction, Nonfarm/ Nonresidential, Other Consumer Loans)	3,267	1.43
Total	228,896	100%

Source: Call Report Data as of 12/31/2015

The bank's primary business strategy is to originate residential mortgage loans within its AA. The bank is a Home Mortgage Disclosure Act (HMDA) reporter, therefore we utilized HMDA data to evaluate loan performance. We analyzed HMDA loans for the years 2014, 2015, and 2016. When more recent data is needed for comparative purposes, such data is used and the applicable date noted. We conducted our previous CRA evaluation on December 3, 2013, which covered a period from January 1, 2011 through September 30, 2013. During that evaluation, we found the bank satisfactorily met the credit needs of its community. Prior to this CRA evaluation, we conducted a stand-alone HMDA data integrity review that did not disclose any significant errors.

We additionally contacted a community agency familiar with the bank's AA to obtain feedback regarding the area's demographics, perceived credit needs, and the

responsiveness of local banks addressing those needs.

DESCRIPTION OF INSTITUTION

First Federal is a \$292 million, full-service, federally chartered mutual thrift headquartered in Pascagoula, Mississippi. The bank operates with a total of six branches with the Moss Point, Mississippi branch being located in a low-income census tract. The bank has additional locations in the cities of Pascagoula, Mississippi (main branch), Gautier, Mississippi, and Vancleave, Mississippi in middle-income census tracts, with the remaining two branches located in the cities of Hurley, Mississippi and Ocean Springs, Mississippi in upper-income census tracts. All branches are located in Jackson County, which is in close proximity to the cities of Gulfport, Mississippi and Biloxi, Mississippi, two of the largest cities in the area. Jackson County is part of the Gulfport-Biloxi-Pascagoula Metropolitan Statistical Area (MSA).

The bank has not opened or closed any branches since the previous examination. Banking hours reasonably meet the community needs with lobby hours Monday through Friday and automated teller machines (ATM) at all branch locations. The bank also offers online banking with bill pay, along with various deposit products and accounts such as traditional checking and savings accounts, and certificates of deposit accounts. Additionally, the bank offers a variety of loan products to serve the credit needs of its AA, including fixed and adjustable-rate mortgages, equity mortgages, short-term and permanent financing construction loans, home equity lines of credit, and first-time homebuyer loans. The bank also offers low-income mortgages, land-only mortgages, and share loans. There are no significant differences between products offered at the six branch locations. No financial or legal impediments prevent First Federal from meeting the credit needs of the community. The previous CRA evaluation was conducted in December 2013 with the bank receiving an overall “satisfactory” rating.

DESCRIPTION OF ASSESSMENT AREA(S)

First Federal’s AA meets regulatory guidelines by including whole geographies and not arbitrarily excluding low-income and moderate-income areas. The bank’s AA includes all of Jackson County, which is part of the Gulfport-Biloxi-Pascagoula MSA. Management determined the entire MSA would be too large an area to serve, with the bank’s branches only being located in Jackson County. Major cities in the AA include Pascagoula, Gautier, Moss Point, and Ocean Springs. The AA is made up of 28 census tracts including one low-income census tract (3.57 percent of total tracts) seven moderate-income census tracts (25.0 percent), 15 middle-income census tracts (53.57 percent) and 5 upper-income census tracts (17.86 percent).

Further details regarding the bank’s AA is discussed in the table below, and is based on 2010 census data.

ASSESSMENT AREA DEMOGRAPHIC AND ECONOMIC DATA – FIRST FEDERAL SAVINGS AND LOAN	
Population	139,668
Number of Families	35,346
Number of Households	49,137
Geographies	
Number of Census Tracts	28
Low-Income Census Tract	1
Moderate-Income Census Tract	7
Middle-Income Census Tract	15
Upper-Income Census Tract	5
Housing	
Owner Occupied Units	35,713
Rental Occupied Units	13,424
Median Family Income (MFI)	
2010 MFI for AA	\$56,243
2010 HUD-Adjusted MFI	\$52,600
Economic Indicators	
Unemployment Rate in December 2016	6.5
2010 Median Housing Value	\$128,149
% of Households Below Poverty Level	13.59
% of Vacant Housing Units	15.27

Source: 2010 census data

The Federal Financial Institutions Examination Council’s (FFIEC) updated 2016 median family income for the AA was \$56,243. Low income is defined as less than 50 percent of the median family income. Moderate income is defined as 50 percent to 80 percent of the median family income. Middle income is defined as 81 percent to 119 percent of the median family income. Upper income is defined as income of 120 percent and over the median family income. The following table depicts those Income Categories:

Income Categories – Jackson County			
Low	Moderate	Middle	Upper
<\$28,121	\$28,122 – \$44,994	\$44,995 - \$67,491	>\$67,492

Source: FFIEC, 2015

Based on 2016 business demographic data, there were 6,664 non-farm businesses in the assessment area. Of these, 5,514 (83 percent) of the businesses had revenues of less than \$1 million, 271 (4 percent) had revenues greater than \$1 million, and 879 (13 percent) did not report revenue information. Primary employers include the Port of Pascagoula, Chevron Pascagoula Refinery, Ingalls Shipbuilding, Jackson County School District, VT Halter Marine, Inc., and Singing River Health System. The other major industries include retail and service.

Competition among financial institutions in the AA remains strong, with the bank competing with several large national and regional banks. According to the Federal Deposit Insurance Corporation’s June 30, 2016 deposit market share report, First Federal commands 11.58 percent of the market share and ranks 3rd out of 13 banks in

the AA. The top two banks accounted for 56.60 percent of the deposits in the AA. Thus, the bank has significant competition in the AA.

As part of the examination, we discussed the credit needs of the AA with one community contact located in Pascagoula. The primary credit need in the community was identified as small-dollar lending and micro lending to assist small businesses. It was noted that there has been a significant increase in the Latin population over the last few years and consequently Spanish translators would also be helpful with growing small business lending. According to this contact, local banks have been active in helping meet the credit needs of the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

First Federal's performance in meeting the credit needs of its AA is satisfactory. We based our conclusion on the bank's more than reasonable loan-to-deposit ratio; reasonable lending within its AA; a reasonable borrower distribution of loans within its AA; and a reasonable geographic dispersion of loans.

Loan-to-Deposit Ratio

First Federal's loan-to-deposit ratio (LTD) is more than reasonable given the credit needs of the AA and the bank's size, financial condition, and location. We based this determination on quarterly LTD ratios from September 2013 to December 2016 that averaged 129.23 percent. During this evaluation period, the bank's LTD ratio ranged from a low of 126.75 percent to a high of 131.93 percent.

Management considers the two banks shown in the following table to be its competitors as both are of comparable size, actively offer residential loan products, and have at least one branch location within the same boundaries of the bank's AA. The LTD ratio for these peer banks is 64.12 percent, which is significantly lower than First Federal's average during the same period. The peer bank's average LTD ratio for the same period ranged from a low of 40.66 percent to a high of 86.35 percent.

Institution	Assets – As of June 07, 2016 (in thousands)	Average LTD
First Federal Savings & Loan	289,356	129.23%
Merchants and Marine Bank	613,910	48.45%
Charter Bank	125,535	79.79%

Source: Call Reports

Lending in Assessment Area

First Federal originated a majority of loans in its AA during the review period. As shown in the following table, the bank made 73.89 percent of loans by number and 70.56 percent by dollar amount in its AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	277	69.42	122	30.58	399	43,740	66.24	22,297	33.76	66,037
Home Improvement	48	88.89	6	11.11	54	4,599	84.49	844	15.51	5,443
Refinance	125	80.13	31	19.87	156	17,341	80.29	4,258	19.71	21,599
Totals	450	73.89	159	26.11	609	65,680	70.56	27,399	29.44	93,079

Source: Data Reported under HMDA

Lending to Borrowers of Different Incomes

Lending to borrowers of different income levels for residential real estate loans in the AA reflects a reasonable penetration, given the bank’s performance contexts. While it appears that the bank has poor penetration to low-income borrowers, it is important to note the average median house value is \$128,149 and the average income for low-income borrowers is less than \$28,000, making home ownership difficult to achieve. Moreover, with average rents equaling \$833 in the AA, it is difficult for low-income renters to save for the down payment required to purchase a residence. These averages are slightly lower in the low-income census tract, with a median housing value of \$87,900 and average rents of \$815, but they nonetheless still evidence difficulty in obtaining loans. In the low-income census tract, 20.14 percent of renters pay more than 30 percent of their income in rent and 25.87 percent of families live below the poverty line. It is additionally worth noting that the unemployment rate in the low-income census tract in 2016 was 20.37 percent, significantly above the unemployment rate of the county. All of these factors combine to make lending difficult to low-income families. Lastly, the percentage of overall loans made by peer banks to low-income borrowers is 8.03 percent, which is only slightly higher than the bank’s average and significantly less than the percentage of low-income families in the AA.

The bank has good penetration to moderate-income borrowers in comparison to the number of AA families. For moderate-income borrowers, 24.23 percent of renters pay more than 30 percent of their income on rent and 18.64 percent of families live below the poverty line. Additionally, 19.07 percent of moderate-income families live below the poverty level. The unemployment rate for moderate-income borrowers is 10.23 percent, which is well above the overall rate for the AA. Lastly, the percentage of overall loans made by peer banks to low-income borrowers is 16.33 percent, which is only slightly higher than the bank’s average and less than the percentage of moderate-income families in the AA.

Borrower Distribution of Residential Real Estate Loans in 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	20.27	5.42	17.02	11.55	21.66	15.88	41.05	66.06
Home Improvement	20.27	6.25	17.02	20.83	21.66	10.42	41.05	62.50
Refinance	20.27	8.80	17.02	13.60	21.66	28.80	41.05	48.00

Source: Data reported under HMDA; U.S. 2010 Census data. Note: No income information was available for 1.08 percent of home purchase and 0.80 percent of refinance loans.

Geographic Distribution of Loans

The geographic distribution of loans originated in the bank's AA reflects reasonable penetration in the AA. The AA contains only one low-income census tract, with only 1.06 percent of all owner-occupied units being located in that low-income census tract. In total, only three loans were made in the low-income census tracts, limiting the ability to conduct meaningful analysis. Nevertheless, it is worth noting that even though there is a significantly low percentage of owner-occupied units in the low-income census tract, the home improvement loans made by the bank was greater than the percentage of owner-occupied units in that tract. The bank's lending activities are significantly better in the moderate-income census tracts, with the bank exceeding the percentage of owner-occupied units for refinances and being on par with home improvement loans. Home purchase loans are slightly less than the percentage of owner-occupied housing units. However, only 45.13 percent of the available units in the AA are owner-occupied, with the remaining 33.36 percent rental units, and 21.51 vacant, evidencing a low market for purchase loans in those census tracts.

Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Owner Occupied Units	% of Number of Loans	% of Owner Occupied Units	% of Number of Loans	% of Owner Occupied Units	% of Number of Loans	% of Owner Occupied Units	% of Number of Loans
Home Purchase	1.06	0.36	11.14	7.58	61.91	53.07	25.89	38.99
Home Improvement	1.06	2.08	11.14	10.42	61.91	50.00	25.89	37.50
Refinance	1.06	0.80	11.14	12.80	61.91	53.60	25.89	32.80

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

Responses to Complaints

First Federal did not receive any consumer complaints pertaining to its lending activities during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's or First Federal's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.