



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

December 17, 2012

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

First Federal Savings and Loan Association  
Charter Number 706902

211 West Main Street  
Morehead, Kentucky 40351-1625

Office of the Comptroller of the Currency  
Louisville Field Office  
10200 Forest Green Boulevard  
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, 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 COMMUNITY REINVESTMENT ACT (CRA) RATING: Satisfactory**

The satisfactory rating is based on several major factors:

- First Federal Savings and Loan Association's (First Federal or Bank) loan-to-deposit ratio is more than reasonable.
- A majority of First Federal's loans were originated within its assessment area.
- First Federal's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.
- First Federal's geographic distribution of loans reflects reasonable dispersion throughout its AA.

## **SCOPE OF THE EXAMINATION**

First Federal Savings and Loan Association was evaluated under the Small Bank Examination Procedures. These procedures include a lending test to evaluate the Bank's record of meeting the credit needs of its assessment area (AA) through its lending activities.

The CRA evaluation period covers between December 4, 2007 and December 3, 2012. Conclusions regarding the Bank's lending performance are based on its primary loan product (residential mortgage loans) originated between January 1, 2010 and December 31, 2011.

## **DESCRIPTION OF THE INSTITUTION**

First Federal is a mutual federal savings association operating from one main office located in downtown Morehead, Kentucky. Morehead is located in northeastern Kentucky near east-west highway I-64. The main office has a drive-thru but does not offer an Automated Teller Machine (ATM). First Federal only offers non-transactional deposit accounts (savings, certificates of deposit, and individual retirement accounts). It does not offer checking accounts, electronic banking, or credit and debit cards. As of September 30, 2012, the Bank reported \$37 million in total assets, \$28 million in deposits, \$30 million in total loans, and \$9 million in tier 1 capital.

The Bank is a traditional thrift with lending primarily focused in residential mortgage loans for the purchase, refinance, improvement, and construction of one-to-four family dwellings. It also originates commercial, farm, share, and secured and unsecured

consumer loans. As of September 30, 2012, net loans represented 81 percent of the institution's average assets. The loan portfolio mix is as follows: one-to-four family residential real estate loans (75 percent), non-residential properties (13 percent), multifamily properties (5 percent), construction and development loans (3 percent), consumer loans (2 percent), commercial loans (1 percent), and all other loans (1 percent).

There are no legal or financial circumstances affecting the institution's ability to meet the credit needs of its community. First Federal was rated satisfactory at its last CRA evaluation.<sup>1</sup>

## **DESCRIPTION OF THE ASSESSMENT AREA**

First Federal Savings and Loan Association's AA consists of Rowan County. The county is rural and located in a non-metropolitan portion of northeastern Kentucky. The AA conforms to the regulatory requirements of the CRA, appears appropriate in relation to the location of the Bank's office, and does not arbitrarily exclude any low- and moderate-income areas.

The 2000 United States (U.S.) Census divides the AA into four census tracts (CTs), with zero low- and upper-income tracts, one moderate-income tract, and three middle-income tracts. The determination was based on the Kentucky Housing and Urban Development (HUD) estimated 2011 median family income of \$43,000.

The AA has a total population of 22,094, according to the 2000 U.S. Census. The 2000 population was comprised of 7,935 households, of which approximately 3,359, or 42 percent, are considered to have low- or moderate-incomes. Additionally, approximately 23 percent of households in the AA live below the poverty level and four percent receive public assistance.

As of October 2012, Rowan County's seven percent unemployment rate was lower than the State of Kentucky's 7.8 percent unemployment rate. The major industry in the AA is trade and transportation, followed by services, manufacturing, public administration, and financial activities. Rowan County's leading employers include Morehead State University, Saint Claire Regional Medical Center, SRG Global, and Family Dollar Stores.

Competition from other financial institutions is moderate. There are a total of six financial institutions with ten offices in the AA, from small federally- and state-chartered community banks to a branch of a large regional bank. The total deposits of these offices range from \$716 thousand to \$93 million. As of June 30, 2012, these offices hold a combined total of \$286 million in deposits inside the AA. First Federal ranks fifth in the county with a 9.9 percent market share.

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<sup>1</sup> The prior CRE examination was conducted by the Office of Thrift Supervision in December 2007.

A Rowan County community contact involved with the Rowan County Business and Labor Group indicated the overall credit needs of the community are being met by local banks.

The following demographic information is based on 2000 census data unless otherwise noted.

Demographic Information for Rowan County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.00	25.00	75.00	0.00	0.00
Population by Geography	22,094	0.00	21.47	78.53	0.00	0.00
Owner-Occupied Housing by Geography	8,985	0.00	22.67	77.33	0.00	0.00
Businesses by Geography	1,994	0.00	24.72	75.28	0.00	0.00
Farms by Geography	55	0.00	21.82	78.18	0.00	0.00
Families by Income Level	5,279	21.84	16.25	18.70	43.21	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	2,011	0.00	30.88	69.12	0.00	0.00
Median Family Income	\$34,174	Median Housing Value				\$66,340
HUD Updated Median Family Income for 2011	\$43,000					
Households Below the Poverty Level	22.72%					

(\*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 U.S. Census and 2011 U.S. Department of Housing and Urban Development estimated Median Family Income. These numbers were obtained directly from U.S. Census data and may not total exactly 100 percent.

## CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA

First Federal Savings and Loan Association’s performance under the lending test is satisfactory.

First Federal’s loan-to-deposit ratio is more than reasonable and a majority of loan originations were inside its AA. The institution’s borrower distribution reflects reasonable penetration of different borrower income-levels. The geographic distribution of residential real estate loans reflects reasonable dispersion among census tracts.

**Loan-to-Deposit Ratio**

The Bank’s loan-to-deposit (LTD) ratio is more than reasonable given First Federal’s size and financial condition and the AA’s credit needs. The LTD ratio averaged 118.56 percent over the 19 quarters since the last CRA examination. The institution had a quarterly low of 106.94 percent and a quarterly high of 127.88 percent. First Federal’s average LTD ratio exceeds other financial institutions of similar size, location, and product offerings.

**Lending in the Assessment Area**

A majority of First Federal’s primary loan product was originated within its AA, which meets the standards for lending in assessment areas. The following table shows the Bank’s lending by number and dollars. It shows 70 percent of the number, and 76 percent of the dollars, of residential loan originations were to borrowers inside the AA. The OCC reached this conclusion by analyzing 23 randomly selected residential mortgage loans originated between January 1, 2010 and December 31, 2011.

<b>Residential Loan Originations Between January 1, 2010 and December 31, 2011</b>				
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amt of Loans (000’s)</b>	<b>Percentage of Dollars</b>
<b>Within the Assessment Area</b>	16	70	1,219	76
<b>Outside the Assessment Area</b>	7	30	388	24
<b>Totals</b>	23	100	1,607	100

Source: Randomly selected one-to-four family residential loans originated between January 1, 2010 and December 31, 2011.

**Lending to Borrowers of Different Incomes**

First Federal’s distribution of one-to-four family residential loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels. The Bank’s loan distribution to low- and moderate-income borrowers represented approximately five and 25 percent of all residential loan originations in the AA, respectively. These levels fall slightly short of the low-income demographic comparator of 22 percent but exceed the moderate-income demographic comparator of 16 percent, respectively.

Two factors in the AA attributed to the Bank falling short of the low-income demographic comparator. First, the U.S. Census reported 23 percent of all households in the community live below the poverty level and 30 percent receive social security. Lower

income levels make it difficult to acquire or maintain a home. Second, the lower income levels make it difficult to meet prudent underwriting standards, including a sufficient down payment. Given the number of home loans originated by First Federal, along with the current economic environment, residential loan distribution to borrowers of different incomes is reasonable. The OCC reached this conclusion by analyzing 20 randomly selected residential mortgage loans located within the AA originated between January 1, 2010 and December 31, 2011.

The following table shows the distribution of one-to-four family residential home loans among borrowers of different incomes compared to the percentage of families in each income level.

<b>Borrower Distribution of Residential Real Estate Loans in Rowan County</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between January 1, 2010 and December 31, 2011</b>				<b>Percent of Families within each Income Category</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amount of Loans (000's)</b>	<b>Percentage of Dollars</b>	
<b>Low</b>	2	5	19	2	22
<b>Moderate</b>	5	25	243	16	16
<b>Middle</b>	10	50	914	59	19
<b>Upper</b>	4	20	361	23	43
<b>Total</b>	20	100	1,537	100	100

Source: Randomly selected one-to-four family residential loans originated in the AA between January 1, 2010 and December 31, 2011 and 2000 U.S. Census data.

### **Geographic Distribution of Loans**

First Federal's distribution of one-to-four family residential loans reflects reasonable penetration among borrowers located in different CTs or geographies. During the assessment period, the Bank's AA contained zero low- and upper-income CTs, one moderate-income CT, and three middle-income CTs. Our sample showed residential loans were originated in all income type CTs during the assessment period. Fifteen percent of the loans were originated in the AA's one moderate-income CT, falling slightly short of the occupied housing comparator of 21 percent. Although the dispersion in the moderate-income CT appears lower than the comparator, the difference in meeting or exceeding the comparator is one sampled loan. In addition, most of the AA's moderate-income CT is sparsely populated and part of the Daniel Boone National Forest.

The following table shows the distribution of one-to-four family residential real estate loans among geographies of different income levels compared to the percentage of owner-occupied housing.

<b>Geographic Distribution of Residential Real Estate Loans In Rowan County</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between January 1, 2010 and December 31, 2011</b>				<b>Distribution of Owner Occupied Housing</b>
	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amount of Loans (000's)</b>	<b>Percentage of Dollars</b>	
<b>Moderate</b>	3	15	259	17	21
<b>Middle</b>	17	85	1,278	83	79
<b>Total</b>	20	100	1,537	100	100

Source: Randomly selected one-to-four family residential loans originated in the AA between January 1, 2010 and December 31, 2011 and 2000 U.S. Census data.

## **RESPONSES TO COMPLAINTS**

First Federal did not receive any complaints about its performance in helping meet the AA's credit needs during this evaluation period.

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.