



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 11, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Freehold Savings Bank
Charter Number 705489

68 W. Main Street
Freehold, NJ 07728-2100

Office of the Comptroller of the Currency

340 Madison Avenue, 4th Floor
New York, NY 10017-2613

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

The major factors supporting the institution's rating are:

- The bank's level of lending, as reflected by the loan-to-deposit ratio, is reasonable when comparing loan demand, competition, and current economic conditions ;
- A majority of originated and purchased loans are within the bank's assessment area;
- The borrower distribution of loans reflects a reasonable penetration among individuals of different income levels; and
- The geographic distribution of loans reflects reasonable dispersion in the moderate-income census tracts.

SCOPE OF EXAMINATION

Freehold Savings Bank (FSB) was evaluated using Small Bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's lending performance from January 1, 2009 through December 31, 2011, as this was representative of the bank's lending strategy and performance since its last CRA examination.

FSB is primarily a mortgage lender and the primary loan products, based on originations during the evaluation period, are residential mortgages. This review analyzed the institution's residential loans. For purposes of this evaluation, residential loans are home purchase, home refinance, and home improvement loans reported pursuant to the Home Mortgage Disclosure Act (HMDA). As indicated by the December 31, 2012 Uniform Thrift Performance Report (UTPR), one to four family residential loans, represents approximately 99% of the overall loan portfolio at the bank.

The bank reports data under the requirements of HMDA. As part of our evaluation, we tested the bank's HMDA data for residential real estate loans originated and purchased and found that the data was reliable. All residential real estate loans originated and purchased during the scope period were included in our evaluation of the bank's lending.

DESCRIPTION OF INSTITUTION

FSB is a \$261 million mutual thrift headquartered in Freehold, New Jersey. The bank does not have any operating subsidiaries and affiliate activities were not considered in this evaluation. In addition to the bank's main office located in Freehold, New Jersey, the institution has one full service branch, also located in Freehold, New Jersey. The

main office and the Route 9 office are both located in a middle-income geography. Branch hours are typically 9:00AM to 4:00PM from Monday through Thursday, with extended hours on Friday. Both the offices have extended drive-up hours from 8:30AM to 5:00PM. The bank's offices are also open on Saturdays from 9:00AM to 12:00PM. No branches were opened or closed during the evaluation period. There have not been any significant changes to FSB's corporate structure, since the last CRA examination.

FSB is a full service, intrastate institution, offering a standard array of traditional loan and deposit products for both personal and business customers. The bank's website, www.freeholdsavingsandloan.com, provides a listing and description of its deposit and loan services. The bank offers a variety of different account access alternatives including online banking with bill pay options. The bank operates automated teller machines (ATMs) at both of its offices.

As of December 31, 2012, deposits totaled \$176.4 million, and Net Tier 1 capital was \$33.5 million. The loan portfolio totaled \$53.5 million, or 21% of total assets, as of the same date. The following table provides a summary of the loan mix.

Loan Portfolio Summary by Loan Product December 31, 2012	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	98%
Home Equity	1%
Commercial & Industrial	0%
Commercial Real Estate	<1%
Construction and Development	<1%
Consumer	< 1%

Source: FDIC Call Report

The bank has no financial or legal impediments to meeting the credit needs of the community. The bank was rated "Satisfactory" using small bank procedures at the last CRA examination dated March 17, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

The CRA requires a bank to define an Assessment Area (AA) in which it will be evaluated. FSB has one AA that meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The bank's AA consists of 46 census tracts throughout Monmouth County and Ocean County in New Jersey (NJ) and is part of the Edison-New Brunswick, NJ Metropolitan Division (MD) 20764. There are no low-income tracts within the bank's AA. The assessment area includes four moderate-income tracts (9%), 22 middle-income tracts (48%) and 20 upper-income tracts (43%). The 2000 U.S. Census Data indicates that 28% of families in the AA are considered low- or moderate-income and approximately 4% of the households are below the poverty level.

Table 1 - Demographic Information for Freehold Savings Bank					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts/BNAs)	46	0.00	8.70	47.83	43.48
Population by Geography	237,449	0.00	5.31	42.26	52.43
Owner-Occupied Housing by Geography	68,764	0.00	4.16	43.03	52.81
Family Distribution by Income Level	63,609	13.31	14.81	21.53	50.36
2000 Census Median Family Income (MFI)		\$69,978	2011 Median Housing Value*		\$220,973
HUD Updated MFI: 2011		\$95,300	Households Below Poverty Level		4%
			Unemployment Rate **		9.1%

Source: 2000 U.S. Census data

**Data from US Bureau of Labor Statistics as of 9/30/2012.

FSB operates in a highly competitive market with competition from local commercial banks and savings banks. The Federal Deposit Insurance Corporation's Institutions Deposit Market Share Report, as of June 30, 2012, indicates 34 institutions operate branches within FSB's AA. FSB ranks 21st with deposit market share of approximately 0.55%. Competitors include: Hudson City Savings Bank, Ocean First Bank, and The Provident Bank. Large nationwide banks that provide further competition and are deposit share leaders include: TD Bank, National Association, Sovereign Bank National Association; Bank of America, National Association; and JP Morgan Chase Bank, National Association.

Per Moody's Analytics, the economic recovery in New Jersey remains slow with an increase in the state's unemployment rate over the past six months. The Moody's report indicates that the economic recovery in the state has remained sluggish and has underperformed when compared to the National economic recovery. The national rate of unemployment in 2012 exhibits a decreasing trend, while the state rate of unemployment has gone up when compared to 2011 year-end. Data from the U.S. Bureau of Labor Statistics indicates that the unemployment rate for the state of New Jersey as of December 2012 was 9.6% compared to the year-end 2011 unemployment rate of 9.1%, and the national unemployment rate of 7.8%. Unemployment rates within the bank's AA were 8.9% and 11.0% for Monmouth and Ocean counties, respectively.

The local economy in AA is driven by education, and healthcare. Major employers within AA include Wakefern Food Corporation, Saint Barnabas Healthcare System, Verizon Communications, and Wal-Mart Stores Inc. As per the Moody's Analytics some of the other major employers in the state include: United Parcel Services Inc., Johnson and Johnson Services Inc., Great Atlantic and Pacific Tea Co., and Caesars Entertainment.

In assessing the bank's performance, we contacted a local organization whose purpose is to provide affordable housing for low- and moderate-income individuals in the state of New Jersey. The contact indicated that post Superstorm Sandy; some businesses have not even been able to return to their businesses to assess the damage. The businesses need financial relief from FEMA. The tourism/hospitality industry has suffered. Funding is needed for advertisement to make tourists aware that although some areas were heavily impacted by Superstorm Sandy, a lot of other businesses are open for business. The contact also indicated that there are a number of opportunities available for bank involvement. There are three Urban Enterprise Zones in Monmouth County that are looking for credit/financing to attract new businesses to those zones. There is also the rebirth of urban areas that need financial support to attract new businesses. The contact thinks banks in general are doing well. The area has experienced the mega-bank mergers and they have more success in the wholesale versus the retail market. Smaller de novo and community banks have better opportunities as they are more involved in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FSB's overall performance under the lending test is satisfactory. FSB's loan-to-deposit ratio is reasonable. A majority of the bank's loans are originated inside the bank's AA. The distribution of loans reflects a reasonable penetration among individuals of different income levels. The geographic distribution of loans reflects reasonable dispersion in the moderate-income census tracts.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable. FSB's opportunities to lend have been impacted by area loan demand, competition and current economic conditions. Lending opportunities affected by loan demand are also impacted by housing availability and affordability. Competition emanating from other local and national loan originators also impacts lending opportunities. The bank's net loan-to-deposit ratio averaged 42% over the last 20 quarters, down from 57% at the previous CRA examination. During this period the loan-to-deposit ratio ranged from a quarterly low of 30% to a quarterly high of 58%. FSB's average loan-to-deposit ratio is lower than the national peer bank quarterly average of 88% over the same period.

Lending in Assessment Area

A majority of FSB's primary loan products was made within the bank's AA and the bank's performance is satisfactory. FSB originated 68% by number and 67% by dollar amount of loans in the AA. The following table details the bank's lending within the AA by number and dollar amount of loans.

Table 2 - Lending in MFS AA (000's)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	13	57%	10	43%	23	2,651	61%	1,689	39%	4,340
Home Refinance	65	68%	31	32%	96	9,759	67%	4,848	33%	14,607
Home Improvement	151	69%	67	31%	218	19,533	68%	9,133	32%	28,666
Totals	229	68%	108	32%	337	31,943	67%	15,670	33%	47,613

Lending to Borrowers of Different Incomes

FSB's lending performance to borrowers of different incomes is satisfactory. Borrower distribution reflects reasonable penetration among residential real estate loans.

The level of home mortgage loans, home improvement loans, and home refinance loans originated to low-income borrowers is lower than the percentage of low-income families in the AA.

Our review of the aggregate lender data for home mortgage loans, home improvement loans, and home refinance loans confirms that FSB's percentage of lending to low-income borrowers within the AA during the review period was below the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were the same, the performance in this category is considered poor penetration.

However, this performance is considered reasonable and mitigated by the following factors. Lending opportunities are limited, given the high competition within the AA as well as the high cost of housing. The downturn in the national economy affected the real estate prices in the area; however, median housing prices remain high relative to median incomes. The 2000 U.S Census Data indicated that the average median home price in the AA was \$221 thousand. The 2011 HUD updated median family income (MFI) is \$95,300. This means that a low-income person earns less than \$47,650. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. Also, market competition for home mortgages is high. According to 2011 peer mortgage market share data, home purchase and home refinance lending in the AA is dominated by larger institutions with the top six institutions holding approximately 50% of the market share.

The level of home mortgage loans, home improvement loans, and home refinance loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA. This performance is considered reasonable penetration. FSB does rank third within the AA for home improvement lending with a market share of approximately 10%.

Our review of the aggregate lender data for home mortgage loans, home improvement loans, and home refinance loans confirms that FSB's percentage of lending to moderate-income borrowers within the AA during the review period is near to the

performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were similar, the performance in this category is considered reasonable penetration.

Table 3 - Borrower Distribution of Residential Real Estate Loans in NJ AA-MSA 20764								
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	13	0	15	20	22	30	50	50
Home Improvement	13	3	15	14	22	17	50	66
Home Refinance	13	2	15	12	22	29	50	57

Source: HMDA reported data from 1/1/2009 to 12/31/2011

Table 4 – Aggregate Lending Data for Borrower Distribution in NJ AA-MSA 20764								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans
Home Purchase	6	0	22	20	27	30	45	50
Home Improvement	7	3	18	14	29	17	46	66
Home Refinance	4	2	14	12	25	29	57	57

Source: HMDA reported data from 1/1/2009 to 12/31/2011

Geographic Distribution of Loans

FSB’s lending to geographies of different income levels within its AAs reflects excellent dispersion. There are no low- income geographies and four moderate-income geographies in the AA. The bank’s lending in the moderate-income geographies is proportionate to the population percentage within those geographies. We did not identify any apparent gaps or areas of low penetration in the bank’s lending pattern.

The distribution of home mortgage loans to moderate-income geographies is lower than the percentage of moderate-income families and reflects reasonable dispersion.

Our review of the aggregate lender data for home mortgage loans confirms that FSB's percentage of lending to moderate-income borrowers within the AA during the review period is lower than the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were the same, the overall performance in this category is considered reasonable dispersion.

The distribution of home improvement loans to moderate-income geographies was near to the percentage of moderate-income families and reflects reasonable dispersion.

Our review of the aggregate lender data for home improvement loans reveals that FSB's percentage of lending to moderate-income borrowers within the AA during the review period exceeds the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were similar, the overall performance in this category is considered excellent dispersion.

The distribution of home mortgage refinance loans to moderate-income geographies exceeds the percentage of moderate-income families. This performance reflects excellent dispersion.

Our review of the aggregate lender data for home mortgage refinance loans confirms that FSB's percentage of lending to moderate-income borrowers within the AA during the review period exceeds the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were the same, the overall performance in this category is considered excellent dispersion.

Table 5 - Geographic Distribution of Residential Real Estate Loans in NJ AA-MSA 20764								
Census Tract 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 Purchase	0	0	4	0	43	45	53	55
Home Improvement	0	0	4	2	43	41	53	57
Home Mortgage Refinance	0	0	4	7	43	45	53	48

Source: HMDA reported data from 1/1/2009 to 12/31/2011

Table 6 – Aggregate Lending Data for Geographic Distribution in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans
Home Purchase	0	0	3	0	42	45	55	55
Home Improvement	0	0	1	2	49	41	50	57
Home Mortgage Refinance	0	0	2	7	40	45	58	48

Source: HMDA reported data from 1/1/2009 to 12/31/2011

Responses to Complaints

The bank did not receive any CRA related complaints during this 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 (bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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