



PUBLIC DISCLOSURE

February 16, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Bank of Kansas City
Charter Number 702825

6900 North Executive Drive
Kansas City, MO 64120-2111

Office of the Comptroller of the Currency
Kansas City Field Office
7101 College Boulevard
Suite 1600
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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.

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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated Satisfactory.

The Community Development Test is rated Satisfactory.

The major factors that support this rating include:

- The loan-to-deposit ratio is more than reasonable.
- First Federal Bank of Kansas City's ("FFBKC" or "bank") overall distribution of loans to borrowers of different income levels shows reasonable penetration.
- Geographic dispersion of residential real estate loans is reasonable in the Kansas City, MO/KS assessment area (AA).
- FFBKC demonstrates an adequate level of responsiveness to meeting community development (CD) needs of the AA.

Scope of Examination

The CRA evaluation determines the bank's record of meeting community credit needs through lending activities. The evaluation also includes an assessment of the bank's community development lending, services, and investment activities. We used a combination of bank and examiner generated loan/demographic reports to evaluate the bank's CRA performance. Consistent with the bank's business strategy, primary products by dollar and number are residential real estate loans. The CRA evaluation period for the lending test is January 28, 2013 through December 31, 2015. We used the bank's HMDA data for loans originated and purchased from January 1, 2014 through December 31, 2015 to assess borrower and geographic distribution. We evaluated the bank's community development loans, services, and investments from January 28, 2013 through February 16, 2016. We performed a data integrity review of reported Home Mortgage Disclosure Act (HMDA) information. The data is accurate and reliable.

Primary weight for the rating is given to the bank's residential real estate loan performance for home purchase and refinance loans in the Kansas City, MO/KS AA. We did not evaluate home improvement and multi-family loans, as the bank did not originate or purchase a sufficient number of these loans during the evaluation period to analyze.

Description of Institution

FFBKC is a \$471 million federally chartered mutual savings bank, whose main office is located in Kansas City, Missouri. FFBKC has no holding company. FFBKC has six full service facilities that offer a full range of loan and deposit products, one mortgage loan production office, and the corporate/home mortgage operations center, all located within

the bank's AA. FFBKC has seven deposit-taking ATMs. Each ATM is located at a bank facility. FFBKC has not opened or closed any bank facilities during the CRA evaluation period.

FFBKC's primary business focus is residential loans. As of December 31, 2015, the bank's loan portfolio, by dollar volume, consisted of 93 percent residential real estate loans and 6.7 percent construction and development loans. FFBKC sells the majority of loans it originates on the secondary market. Net loans and leases were 77 percent of average assets. As of December 31, 2015, tier 1 capital was \$65 million.

FFBKC received a "Satisfactory" rating at its previous CRA examination dated January 28, 2013. There are no legal, financial, or other constraints limiting FFBKC's ability to meet the credit needs of its AA.

Description of Assessment Area

FFBKC is an interstate bank with one AA, for CRA evaluation purposes, comprising portions of the Kansas City, MO/KS Metropolitan Statistical Area (MSA). The AA includes all of Johnson County in Kansas, and all of Jackson and Clay and portions of Cass and Platte counties in Missouri. Competitive factors have the greatest impact on the bank's ability to originate loans to various segments or within certain geographic areas of the AA. The AA is consistent with the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The AA consists of 400 census tracts comprising 49 low-income, 86 moderate-income, 122 middle-income, and 135 upper-income census tracts. The remaining eight census tracts do not have an income designation. The 2015 median family income for the AA is \$74,700.

Economic conditions in the AA are stable, with some small fluctuations in local businesses. There are varied employment industries in the Kansas City area that include telecommunications; manufacturing; health care; financial services; engineering; federal, state, and local government; and agribusiness. Major employers include DST Systems Inc., Ford Motor Company, Hallmark Cards, Inc., Health Midwest, St. Luke Health Systems, Sprint Corporation, Cerner, and federal, state and local government.

In 2015, the annual average unemployment rate for the Kansas City, MO-KS MSA was 3.8 percent. This compares to an average unemployment rate in the AA of 3.5 percent and the national rate of 4.9 percent.

Competition from other financial institutions is strong. There are 105 financial institutions with 566 banking offices within the AA. The deposit market share percentage ranges from a high of 20.67 percent to a low of 0.00 percent. FFBKC is ranked twenty-eighth in the market, with a deposit market share of 0.72 percent.

As part of our evaluation, we reviewed one recent community development organization contact. Identified community needs include affordable housing in the MSA.

Conclusions with Respect to Performance Criteria

LENDING TEST

Loan-to-Deposit Ratio

FFBKC's quarterly average loan-to-deposit (LTD) ratio is more than reasonable at 101 percent. We calculated the quarterly average LTD ratio using information from the Consolidated Reports of Condition from March 31, 2013 to September 30, 2015. The quarterly average LTD ratio for similarly situated financial institutions for the same period is 67 percent. The highest peer ratio is 78 percent, and the lowest is at 44 percent. By asset size, FFB ranked fourth out of six similarly situated financial institutions serving its AA. These financial institutions ranged from \$300 million to \$571 million in asset size with an average asset size of \$477 million.

Lending in Assessment Area

FFBKC is a traditional thrift that primarily offers residential mortgage loan products. Although FFBKC made a majority of loans outside of the AA, the bank meets the standard for satisfactory performance based on mitigating factors. Overall, FFBKC originated or purchased 29 percent of their residential real estate loans within the AA by number and 24 percent by dollar volume.

The bank is a nationwide lender with their Internet products, thus the majority of loans are outside the AA. Additionally, FFBKC purchased two mortgage loan pools in 2014, with all properties located outside the bank's AA. The bank's business strategy focuses on home mortgage lending.

Lending to Borrowers of Different Incomes

Overall lending to borrowers of different incomes shows reasonable penetration for home mortgage loans in its AA.

FFBKC's distribution of home purchase loans to low-income borrowers shows reasonable penetration. While the percentage of these loans is significantly below demographics, performance is mitigated by the fact that 7.37 percent of families are below the poverty level. Performance is also reasonable considering the industry aggregate data for home purchase loans was 9.47 percent to low-income borrowers.

Performance is more than reasonable for home purchase loans to moderate-income borrowers. The bank exceeded demographics for home purchase loans made to moderate-income borrowers. The bank also exceeded the aggregate market share for home purchase loans to moderate-income borrowers that was 19.57 percent.

Overall performance shows reasonable penetration for home refinance loans to low-income borrowers considering the industry aggregate data for these loans was 10.25 percent. The percentage of home refinance loans to low-income borrowers is significantly below demographics.

Home refinance loans to moderate-income borrowers shows overall reasonable penetration. Primary consideration is given to the industry aggregate data, which shows 23.70 percent of home refinance loans to moderate-income borrowers. Based on demographics, the bank’s performance was slightly below demographics, and helps support reasonable penetration to moderate-income borrowers.

Borrower Distribution of Residential Real Estate Loans in Kansas City, MO/KS AA								
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 Purchase	18.93%	8.96%	16.77%	20.75%	21.12%	22.09%	43.17%	48.21%
Home Refinance		8.04%		14.29%		19.20%		58.48%

Other Lending Information

FFBKC provides two different loan programs. These programs assist low- and moderate-income families. Loan data is included in our borrower distribution analysis above.

The first program is called the Missouri Housing Development Commission (MHDC) First Place Home Loan Program (MRB-CAP) and (MRB-NON-CAP), which is a first-time homebuyer program. The bank has consistently been a top lender in this program in the state of Missouri. In 2014, the bank was the number one loan originator of MHDC loans. The bank made 128 MHDC loans totaling more than \$13 million during the examination period.

The other loan program is through the United States Department of Agriculture (USDA) called Rural Housing Service (RHS) to assist low- and moderate-income families with income equal to or less than 115 percent of the area’s median income. In 2013, the bank was approved for participation in the USDA Rural Development Single Family Housing Guaranteed Loan Program (SFHGLP) on a nationwide basis. The bank made 32 loans totaling more than \$4 million during the examination period.

The bank participated in the Federal Home Loan Bank of Des Moines Homeownership Fund Program. This program is for individuals that are at 80 percent or less of area median income and have taken a homebuyer education class. The program provides down payment and closing cost assistance to first-time homebuyers.

Geographic Distribution of Loans

FFBKC’s overall geographic dispersion of loans in the Kansas City, MO/KS AA is reasonable for home mortgage loans. Overall, we placed more weight on the bank’s geographic distribution of loans in the moderate-income census tracts due to more opportunities to lend. Within the low-income census tracts, rental housing units total 45.76 percent, and vacant homes in the same tracts are high at 21.86 percent, leaving a small percentage of units available for owner-occupancy.

The geographic distribution of home purchase loans shows reasonable dispersion in low-income census tracts. The industry aggregate data for these loans was 1.49 percent, which supports reasonable performance. FFBKC is significantly below demographics in low-income census tracts.

FFBKC shows reasonable dispersion for home purchase loans in moderate-income census tracts. The industry aggregate data shows 12 percent penetration in moderate-income census tracts, which is slightly higher than the bank’s level of lending in those tracts. The bank’s performance is below demographics in moderate-income census tracts for home purchase loans.

Home refinance loans in low-income census tracts shows very poor dispersion. The volume of these loans is significantly below area demographic data in low-income census tracts. The bank’s industry aggregate data of 2.22 percent also supports very poor performance. A mitigating factor is the low percentage of owner-occupied housing in low-income census tracts that reflects limited lending opportunities.

FFBKC shows reasonable dispersion for home refinance loans in moderate-income census tracts. The industry aggregate data of 13.48 percent reflects reasonable performance. The volume of these loans is below demographics in moderate-income census tracts.

Geographic Distribution of Residential Real Estate Loans in Kansas City, MO/KS AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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	4.93%	1.19%	17.12%	11.03%	35.46%	32.94%	42.49%	54.84%
Home Refinance		0.43%		11.11%		27.35%		61.11%

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in the Kansas City, MO/KS AA is adequate. While the level of qualified investments is poor, the excellent level of community development services supports adequate performance overall.

Number and Amount of Community Development Loans

FFBKC has very limited opportunity to provide community development loans in their AA.

The bank's structure and focus on single-family housing limits their ability to make community development loans. Their strategy is to lend for residential real estate home purchase and home refinance.

The bank recognizes that community development lending is essential to the success of any community. FFBKC focuses on home purchase and home refinance lending. To help facilitate community development lending the bank has placed a certificate of deposit with a certified Community Development Financial Institution (CDFI) within the bank's AA. We considered this in the qualified investments section below.

Number and Amount of Qualified Investments

FFBKC displays poor responsiveness to community development investment needs in the Kansas City, MO/KS AA. Investments include all qualified investments made since the last evaluation dated January 28, 2013, through February 16, 2016. Qualified investments and donations total \$1.4 million, which represents approximately two percent of tier 1 capital. According to a community contact during the examination period, there are sufficient opportunities to meet community needs in the Kansas City, MO/KS MSA.

FFBKC made a total of \$81 thousand in qualified donations to several organizations assisting low- and moderate-income individuals and families in the bank's AA. The largest investment was to a CDC that provides community-based lending services to finance real estate, and predevelopment activities that provide affordable housing, revitalization, and stabilization to the local community.

The bank invested in one government-issued mortgage backed security totaling \$1.3 million during the review period. The investment is secured by nine single-family properties located in Jackson, Cass, and Clay Counties in Missouri and Johnson County, Kansas; 100 percent of the borrowers are from low- to moderate-income households. Affordable housing is an identified need in the community.

The bank deposited \$65 thousand in a certified CDFI to assist in its small business lending efforts since FFBKC does not provide that type of lending.

Extent to Which the Bank Provides Community Development Services

The bank provides an excellent level of community development services.

Retail banking

Branch and ATM distribution is excellent. FFBKC has six retail branches that are readily accessible to customers of various income levels. Fifty percent of branches are located in moderate-income census tracts and fifty percent are located middle-income census tracts. Fifty-seven percent of the ATMs are located in moderate-income census tracts and forty-three percent are located in middle-income census tracts. The percentage of the AA's population residing in moderate-income tracts is 20.27 percent. Teller services are available in all locations and drive-up services are available on Saturday. Customers have access to seven full-service ATMs.

FFBKC offers customers checking, savings, electronic wire transfer, cashier checks, money orders, notary public service, direct deposit of government payments, 1st Federal Check Access MasterCard Debit Card, ATM access to the Cirrus®, Pulse® and "surcharge free" Money Pass® Network, internet banking with bill payment, and mobile banking. No significant weight was placed on these product/service offerings as the bank did not maintain metrics to determine their effectiveness in helping to meet the credit needs of LMI individuals.

Community Development Services

In December 2015, the bank entered into a subservicing agreement with Heartland Habitat for Humanity. FFBKC worked with Heartland Habitat for Humanity from December 2014 through December 2015 to develop a plan for the bank to take over the servicing of approximately 150 loans. The bank spent between 40 and 60 hours to come to this agreement. The bank will provide billing and payment collections on these home loans. This service helps facilitate affordable housing, which is an identified need in the community.

Associates also responded to affordable housing needs by providing six homebuyer education classes to low- and moderate-income individuals. Also, one employee serves on the board of an organization that provides transitional housing services in the AA.

Responsiveness to Community Development Needs

The bank displays excellent responsiveness to community development needs in the Kansas City, MO/KS AA.

Based on the above comments regarding retail banking and community development services, responsiveness is considered excellent. Primary weight is given to branch and ATM distribution and community development services provided by FFBKC.

There are no legal, financial, or other factors impeding the ability to meet credit needs in its communities.

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.