



PUBLIC DISCLOSURE

March 5, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kennebec FS & LA of Waterville
Charter Number 703844

70 Main Street
Waterville, ME 04901

Office of the Comptroller of the Currency

99 Summer Street, Suite 1400
Boston, MA 02110

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.

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Overall CRA Rating

The Lending Test is rated: Satisfactory.

- The average loan-to-deposit ratio is more than reasonable given the bank's size and credit needs of the assessment area (AA).
- The bank originates a substantial majority of loans to customers inside the AA.
- The distribution of home mortgages reflects reasonable penetration among borrowers of different income levels.
- The geographic distribution of home mortgages reflects excellent dispersion in the moderate-income tracts within the bank's AA.

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.

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

Kennebec Federal Savings & Loan Association of Waterville (KFS) is a federally chartered mutual bank headquartered in Waterville, ME. The bank does not have any operating subsidiaries and affiliate activities were not considered in this evaluation.

KFS is a full service, intrastate institution with two branches in Maine. The bank's main office and its one full service branch are both located in Waterville, Maine. The main office is located in a moderate-income geography, and the Washington Street branch is located in an upper-income geography. Branch hours are typically 8:30am to 4:30pm from Monday through Friday. Extended drive-up hours are offered at the Washington Street branch from 8:00am to 5:00pm Monday through Thursday and 8:00am to 5:30pm on Friday. The Washington Street branch is also open on Saturdays from 8:30am to 1:00pm. No branches were closed and no new branches were opened during the evaluation period. There have not been any significant changes to KFS's corporate structure since the last CRA evaluation.

KFS offers a standard array of traditional loan and deposit products for consumer and business customers. The bank's primary lending focus is residential loans. 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 branches and is a member of the SUM ATM network, which allows member customers to access their accounts from participating SUM network ATMs without charge. The bank's website, www.kfsavings.com, provides a listing and description of its deposit and loan services.

As of December 31, 2017, total assets were \$92.8 million, total deposits equaled \$65.6 million, and net tier one capital was \$7.8 million. The loan portfolio totaled \$82.8 million, or 89% 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, 2017	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	83
Home Equity	16
Construction and Development	1
Commercial & Industrial	<1
Consumer	<1

Source: 12/31/2017 FDIC Call Report

The bank has no financial or legal factors impeding the bank from meeting the credit needs of the community. The bank was rated "Satisfactory" using Small Bank procedures at the last CRA evaluation dated September 24, 2012.

Scope of the Evaluation

Evaluation Period/Products Evaluated

KFS was evaluated using Small Bank Community Reinvestment Act (CRA) examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period for the lending test covers the bank's performance from January 1, 2014 through December 31, 2016.

The bank's primary loan product, based on originations during the evaluation period, is residential mortgages. For the purpose of this evaluation, residential loans include home purchase, home refinance, and home improvement loans.

Data Integrity

KFS does not have a branch or office located in a Metropolitan Statistical Area (MSA) and is therefore exempt from data reporting requirements of the Home Mortgage Disclosure Act (HMDA). We selected a random sample of home loans originated during the evaluation period to assess the bank's residential lending.

Selection of Areas for Full-Scope Review

We conducted a full-scope review of the bank's assessment area, a non-MSA comprised of Kennebec and Somerset counties. See Appendix A for more information regarding the scope of this examination.

Ratings

The bank's overall rating is based on the full-scope review of the bank's one assessment area.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §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

The bank's performance under the lending test is satisfactory. The loan-to-deposit ratio is more than reasonable and a substantial majority of the loans are originated inside the bank's AA. Overall, the distribution of loans reflects a reasonable distribution among individuals of different income levels. The geographic distribution of loans reflects excellent distribution in the moderate-income census tracts.

Loan-to-Deposit Ratio

The bank's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the AAs' credit needs. The bank's quarterly net loan-to-deposit ratio averaged 128 percent over the last 22 quarters since the last CRA evaluation. During this period, the loan-to-deposit ratio ranged from a quarterly low of 119 percent to a high of 138 percent.

The bank's net loan-to-deposit ratio compares favorably to other financial institutions of similar size, location, and product offerings. KFS ranks first among a total of five similarly situated banks. The average net loan-to-deposit ratio for the other four banks ranged from 88 percent to 120 percent over the same time period.

Institution Name	Assets As of 12/31/2017	Average LTD
Kennebec FS & LA of Waterville	92,844	128.16
Auburn Savings Bank FSB	73,250	120.02
First FS & LA Bath	126,998	103.69
Rockland Savings Bank FSB	73,545	94.45
Aroostook County FS & LA	118,744	88.33

Source: The Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report) data

Lending in Assessment Area

A substantial majority of KFS's primary loan product was originated within its assessment area during the evaluation period. KFS originated 90 percent by number of home loans and 85 percent by dollar amount of home loans in the AA.

The following table details the bank's lending within the AA by number and dollar amount of loans.

Table 1 – Lending in AA: Kennebec & Somerset Counties										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgages	18	90.00	2	10.00	20	1,958,950	85.34	336,400	14.66	2,295,350

Source: Loan sample.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of home loans originated in the bank’s AA reflects reasonable penetration among borrowers of different income levels.

The percent of home mortgages made to low-income borrowers is significantly lower than the percent of aggregate lending data. The percent of home loans made to moderate-income borrowers falls within a reasonable range below the percent of aggregate lending data.

The bank’s performance is satisfactory given the lack of affordable housing in the AA and competition in the bank’s market area. The median housing value, based on 2010 census data, was \$132,019. The update median family income is \$55,300, which means the maximum income for low-income families is \$27,650; therefore, low-income borrowers may have difficulty qualifying for home purchase loans. Additionally, moderate-income families could encounter difficulty with an income range of \$27,651 to \$44,240.

Market competition for home mortgage loans is also evident in the bank’s AA. According to 2016 Peer Mortgage Market Share data, mortgage lending is dominated by large institutions with the top 10 institutions having over 50 percent of the market share.

The following table shows the distribution of home mortgages among borrowers of different income levels, compared to the percent of aggregate lending data based on 2016 Peer Mortgage Data.

Table 2 – Aggregate Lending Data for Borrower Distribution in Kennebec & Somerset Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Aggregate Lending Data	% of Number of Loans	% of Aggregate Lending Data	% of Number of Loans	% of Aggregate Lending Data	% of Number of Loans	% of Aggregate Lending Data	% of Number of Loans
Home Mortgages	5.55	0.00	19.26	15.00	22.00	35.00	33.65	45.00

Source: Loan sample. For 19.5% of the peers, income was not available.

Geographic Distribution of Loans

The geographic distribution of home mortgages reflects excellent dispersion in the moderate-income tracts within the bank's AA. The AA includes two moderate-income tracts and no low-income tracts. The percent of home mortgage lending exceeds the aggregate lending data. We did not identify any conspicuous gaps or areas of low penetration in the bank's lending areas.

The following table details the bank's performance compared to the percentage of aggregate lending data in each census tract income level within the AA.

Table 3 - Geographic Distribution of Home Mortgages in Kennebec & Somerset Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Aggregate Lending Data	% of Number of Loans	% of Aggregate Lending Data	% of Number of Loans	% of Aggregate Lending Data	% of Number of Loans	% of Aggregate Lending Data	% of Number of Loans
Home Mortgages	0.00	0.00	5.62	15.00	76.97	70.00	17.41	15.00

Source: Loan sample.

Responses to Complaints

The bank did not receive any CRA related complaints during this evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation 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”).

Time Period Reviewed	Lending Test (excludes CD loans): (1/1/2014 to 12/31/2016) Investment and Service Tests and CD Loans: N/A	
Financial Institution	Products Reviewed	
Kennebec FS & LA of Waterville (KFS) Waterville, ME	Residential mortgages	
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Kennebec and Somerset Counties, Maine	Full Scope	None

Appendix B: Community Profiles for Full-Scope Areas

Kennebec & Somerset Counties

Demographic Information for Full-Scope Area: Kennebec & Somerset Counties						
Demographic Characteristics	Total #	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	21	0.00	9.52	76.19	14.29	0.00
Population by Geography	86,815	0.00	10.70	73.11	16.19	0.00
Owner-Occupied Housing by Geography	25,817	0.00	7.38	77.85	14.77	0.00
Businesses By Geography	4,063	0.00	18.39	66.77	14.84	0.00
Farms by Geography	196	0.00	7.14	83.16	9.69	0.00
Family Distribution by Income Level	23,234	20.30	17.73	21.49	40.48	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	8,836	0.00	14.87	74.74	10.39	0.00
Median Family Income FFIEC Updated MSA Median Family Income	\$53,445 \$55,300	Median Housing Value Unemployment Rate**		\$132,019 3.05%		
Households Below Poverty Level	14.81%					

Source: 2010 U.S. Census data

* The NA category consists of geographies that have not been assigned an income classification.

**Data from US Bureau of Labor Statistics as of 12/31/2017. Rate is an average of Kennebec and Somerset Counties.

The bank's AA consists of 13 towns and one unorganized territory in the northern portion of Kennebec County and 9 towns in the southern portion of Somerset County, Maine. The AA comprises 21 census tracts. There are no low-income tracts within the bank's AA. The assessment area includes two moderate-income tracts, 16 middle-income tracts, and 3 upper-income tracts. The 2010 U.S. Census Data indicates that 38 percent of families in the AA are considered low- or moderate-income and approximately 15 percent of the households are below the poverty line.

KFS operates in a 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, 2017, indicates nine institutions operate branches within KFS's AA. KFS ranks 7th with deposit market share of 7.02 percent. Area competitors include: Skowhegan Savings Bank, Kennebec Savings Bank, The Camden National Bank, and Bangor Savings Bank. Large nationwide banks that provide further competition include: TD Bank, National Association, KeyBank National Association, and People's United Bank, National Association. These large banks are also deposit market share leaders.

Per Moody's Analytics, the economic recovery in Maine remains slow. Still, there has been a steady decrease in the state's unemployment rate over the past five years. Both the national and Maine State rate of unemployment in 2017 exhibit a decreasing trend. Economic recovery in the state continues to underperform when compared to the National and New England economic recovery. The Maine economy will continue to be driven by expansion in the healthcare industry and manufacturing. Seniors as a percentage of Maine's population continues to increase.

The U.S. Bureau of Labor Statistics indicates that the unemployment rate for the state of Maine as of December 2017 was 3.1 percent compared to the prior year-end unemployment rate of 3.5 percent. The national rate of 4.1 percent as of December 2017 has improved compared to 4.7 percent at year-end 2016. The unemployment rate as of December 2017 for the two counties in the AA averaged 3.05 percent. Rates were 2.3 percent and 3.8 percent for Kennebec and Somerset counties, respectively. Education and healthcare continue to drive the local economy. Major employers within the AA include Colby College; Maine General Hospital, Waterville; and Maine General Medicine Center, Waterville.

Median housing prices in the AA remain high compared to median family income. The high cost of housing limits the availability of affordable housing for low- and moderate-income families in the AA. In assessing the bank's performance, we contacted a local organization to provide context on the bank's local community and their credit needs. The organization's main purpose is to assist Maine residents in obtaining and maintaining affordable housing. The contact indicated that affordable housing is a concern in the area, given the high cost of housing in the state. The contact noted that housing in Maine is largely considered unaffordable. Of the sixteen counties in Maine, seven are considered unaffordable. This number has increased since the prior year. There are opportunities in the local community for bank involvement, and local financial institutions are available to meet these needs.