

PUBLIC DISCLOSURE

April 25, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Piedmont Federal Savings Bank
16 West 3rd Street
Winston Salem, North Carolina 27101-3904
Docket #: 00007**

**Office of Thrift Supervision
Southeast Region
1475 Peachtree Street, N.E.
Atlanta, Georgia 30309**

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.



Office of Thrift Supervision
Department of the Treasury

Southeast Region

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June 21, 2011

Board of Directors
Piedmont Federal Savings Bank
16 West 3rd Street
Winston Salem, North Carolina 27101-3904

Members of the Board;

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of April 25, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Valorie Owen
Senior Compliance Review Examiner

Enclosure

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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Piedmont Federal Savings Bank (Piedmont). The Office of Thrift Supervision (OTS) prepared the evaluation as of April 25, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: **Satisfactory**
The Lending Test is rated: **Satisfactory**
The Community Development Test is rated: **Satisfactory**

Piedmont is rated "Satisfactory record of meeting community credit needs".

During the current review period, Piedmont maintained a strong loan-to-deposit (LTD) ratio that averaged 77.0 percent, which was lower than that of similarly sized savings associations within the OTS's Southeast Region.

Other measures of lending activity indicated that the Institution originated a reasonable volume of loan products, based upon its average asset size and in comparison to similarly sized OTS-regulated institutions. The Institution is a community savings association and originates a variety of lending products, including residential mortgages and commercial loans.

The majority of the 1-4 family residential loan origination activity (93.9 percent) was secured by properties located within the combined assessment area. The Institution's overall record of lending to low- and moderate-income (LMI) borrowers within the combined assessment area is reasonable compared to area demographics and to that of similar mortgage lenders within the combined assessment area. Also, its record of lending within the LMI census tracts (CTs) within the combined assessment area is considered reasonable compared to area demographics and to that of aggregate mortgage lenders within the combined assessment area.

Scope of Examination

At the preceding evaluation, conducted as of December 1, 2008, Piedmont was assigned a CRA rating of "Satisfactory record of meeting community credit needs". The Institution's performance for that evaluation was based upon the standards for an intermediate small savings association (ISSA). Given Piedmont's asset size during the current review period, its performance for this evaluation is also based upon the standards for an ISSA.

Institution (continued)

The time period reviewed for this evaluation is from January 1, 2008, through December 31, 2010. Products reviewed included purchase and refinance mortgage loans, home equity lines of credit, and home improvement loans originated during this period that were reportable under the Home Mortgage Disclosure Act (HMDA). Piedmont's community development lending, investments, and services were also reviewed to arrive at the assigned overall rating.

Description of Institution

Piedmont is a federally chartered, mutual savings association with total assets of approximately \$926 million as of March 31, 2011, and is located in Winston-Salem, Forsyth County, North Carolina, and operates ten branch offices in three counties. Branch offices are located in Forsyth (Winston-Salem (6), Clemmons, and Kernersville), Watauga (Boone), and Wilkes (North Wilkesboro) Counties. One branch office is located in a moderate-income CT; five branch offices are located in middle-income CTs; and four branch offices are located in upper-income CTs. Piedmont employs 114 persons.

Piedmont operates as a traditional savings association, concentrating its operations in the origination of mortgage loans and the acceptance of deposits. With respect to mortgage lending, Piedmont primarily engages in the origination of residential real estate loans. As of March 31, 2011, 62.3 percent of the Institution's total assets consisted of permanent mortgages on single-family residences, multi-family dwellings, nonresidential property, and mortgage-backed securities. In addition, zero percent of total assets were invested in non-mortgage loans and 17.4 percent of total assets were invested in other types of securities.

Piedmont offers conventional fixed- and adjustable-rate first and second residential mortgages for purchase and refinance, home equity lines of credit, and church loans. The Institution retains all of its mortgage loan originations in its own portfolio.

Description of Combined Assessment Area

Notwithstanding that the Institution has branch offices in only Forsyth, Watauga, and Wilkes Counties, Piedmont has designated all of Davidson, Davie, Forsyth, Stokes, Watauga, Wilkes, and Yadkin Counties, North Carolina, as its combined assessment area. According to the 2000 Census, the area was comprised of 140 census tracts, including six low-income, 20 moderate-income, 79 middle-income, and 35 upper-income census tracts. The 2000 Census data is used for an analysis of the Institution's 2008, 2009, and 2010 mortgage lending activity. The combined assessment area is contiguous and located in central and western North Carolina.

Institution (continued)

Some of the counties are part of a Metropolitan Statistical Area (MSA) and some are not. Davie, Forsyth, Stokes, and Yadkin Counties comprise the Winston-Salem MSA. Davidson, Watauga, and Wilkes Counties are not located in MSAs.

The examiner also notes that for 2010, the combined assessment area contains 12 middle-income census tracts classified as “distressed” due to poverty. These tracts are all located in Wilkes County.

A low-income census tract is one with a median family income (MFI) of less than 50.0 percent of the MFI of a non-metropolitan area of a state or an MSA, a moderate-income census tract is one with a MFI of at least 50.0 percent, and less than 80.0 percent of the MFI of a non-metropolitan area of a state or an MSA, a middle-income census tract is one with a MFI of at least 80.0 percent, and less than 120.0 percent, of the MFI of a non-metropolitan area of a state or an MSA, and an upper-income census tract is one with a MFI of 120.0 percent or more of the MFI of a non-metropolitan area of a state or an MSA.

The combined assessment area’s economies appear to be diversified and not heavily dependent upon any one industry or employer. The tobacco and textile/apparel industries have historically heavily influenced the local economies of the region. These industries have typically continued to downsize during the review period because of the national economy and also because of the transition to other fields of employment such as education and medical jobs. Many older persons and lower income persons have become displaced because of the difficulty in adapting from less skilled manufacturing jobs to high skilled technology jobs. Some of the area’s largest employers are Wake Forest University Baptist Medical Center, Novant Health, Hanesbrands, Reynolds American, Wells Fargo, BB&T, Wake Forest University, local governments, and school systems.

A summary of certain demographic characteristics for the combined assessment area based upon 2000 Census data follows:

DEMOGRAPHICS OF CENSUS TRACTS			FAMILY DISTRIBUTION	
Census Tract Category	Population	Owner Occupied Housing Units	Income Category	Distribution of Families
Low	17,107	0.7%	Low	18.1%
Moderate	81,156	9.0%	Moderate	17.9%
Middle	397,076	60.2%	Middle	23.1%
Upper	182,195	30.1%	Upper	40.9%
Total	677,534	100.0%	Total	100.0%

Institution (continued)

The examiner's review of 2000 Census data disclosed the following additional information about the combined assessment area:

Total Population	677,534
Population 16 and older	535,241 (79.0%)
Population Over 65	86,481 (12.8%)
Total Housing Units	297,977
Owner-Occupied Housing Units	193,099 (64.8)
Rental Occupied Units	77,932 (26.2%)
1 - 4 Family Units	266,369 (89.4%)
Multi-Family Units	31,608 (10.6%)
Total Families	188,012
Families Below the Poverty Level	14,262 (7.6%)

In addition, the Institution encounters substantial competition from many other financial institutions within the combined assessment area. Specifically, as of June 30, 2010, the latest information available, a total of 26 commercial banks and three savings associations, which includes Piedmont, maintained a total of 215 offices within the combined assessment area. This included several institutions that are multi-state, regional, national, or larger institutions with branches outside of the combined assessment area, such as Bank of America, N.A., Wells Fargo Bank N.A., Branch Banking & Trust Company, Southern Community Bank, SunTrust Bank, and First Citizens Bank & Trust Company. As of June 30, 2010, all institutions held approximately \$19.2 billion in deposits within the combined assessment area. Piedmont held approximately 3.6 percent of the combined assessment area total deposits.

The combined assessment area, as defined by the Institution, is consistent with regulatory requirements.

Conclusions With Respect To Performance Tests

Lending Test

Loan-to-Deposit Ratio

Information compiled from the OTS's Thrift Financial Reports disclosed that Piedmont's LTD ratio averaged 77.0 percent over the review period. This ratio is lower than the average LTD ratio of 94.7 percent during this period for the median of similarly sized institutions within the Southeast Region of the OTS.

Institution (continued)

Notwithstanding that Piedmont's LTD ratio was lower than that of similar sized institutions, the examiner concludes that the Institution's LTD ratio meets the standard for satisfactory performance for this criterion.

Lending within the Assessment Area

Piedmont maintained a loan/application register during the review period. After reviewing these records, the examiner determined that the Institution originated a total of 1,627 mortgage loans between January 1, 2008, and December 31, 2010. The examiner further determined that the majority of the originated mortgage loans were secured by properties located within the combined assessment area as described below:

LOAN ORIGINATIONS DURING THE REVIEW PERIOD				
Originations	Number	Pct. No.	Volume (000s)	Pct. of \$
Inside Assessment Areas	1,528	93.9%	\$223,101	92.0%
Outside Assessment Area	99	6.1%	\$19,462	8.0%
Total	1,627	100.0%	\$242,563	100.0%

Based upon the data referenced above, the examiner concludes that Piedmont's level of mortgage lending within the combined assessment area exceeds the standard for satisfactory performance for this criterion.

Lending to Borrowers of Different Income Levels

In order to evaluate Piedmont's record of lending to borrowers of different income levels for 2008, 2009, and 2010, family income levels were stratified as a percentage of the updated MFI for the Winston Salem MSA, as well as the non-metropolitan areas of North Carolina. The updated MFI figures, as provided by the Department of Housing and Urban Development, for the Winston Salem MSA and non-metropolitan areas of North Carolina for 2008, 2009, and 2010 were \$57,300, 59,700, and \$59,800, respectively; and \$48,100, 49,900, and \$50,400, respectively.

Institution (continued)

From information contained in the Institution’s records, the examiner compiled the following borrower income distribution statistics:

Borrower Income Levels ^a	Piedmont’s HMDA Loan Volume: 1/01/2008 through 12/31/2010 in the Combined Assessment Area				Benchmarks	
	Number of Loans ^b	Percent of Number	Dollar Amount (000 omitted)	Percent of Dollar Amount	2000 Percent of Families ^c	2009 Aggregate HMDA ^d
Low = <50%	83	5.5%	\$4,265	1.9%	18.1%	5.5%
Moderate = 50-79%	278	18.5%	\$23,072	10.5%	17.9%	15.0%
Middle = 80-119%	332	22.1%	\$35,121	16.0%	23.1%	20.0%
Upper = ≥ 120%	810	53.9%	\$156,941	71.6%	40.9%	59.5%
Total	1,503	100.0%	\$219,399	100.0%	100.0%	100.0%

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within the combined assessment area. However, Piedmont’s ability to originate mortgage loans to low-income borrowers may be influenced in part by the 7.6 percent of families below poverty level. The Institution’s level of mortgage lending to moderate-income borrowers slightly exceeded the percentage of moderate-income families residing within the combined assessment area. Piedmont achieved a low-income borrower percentage similar to the aggregate lenders, while outperforming the aggregate lender benchmark in the moderate-income borrower category.

Based upon the above data, including family poverty levels, the examiner determined that Piedmont’s overall level of lending to borrowers of different income levels meets the standard for satisfactory performance for this criterion.

Geographic Distribution of Loans

The examiner also performed a review to determine the adequacy of dispersion of lending with regard to lending within the LMI areas of the combined assessment area for 2008, 2009, and 2010. Specifically, the examiner analyzed the percentage of residential mortgage loans, by number and dollar amount of the mortgage loans originated by Piedmont within the LMI CTs compared to the percentage of owner-occupied housing units (OOHUs) located within those areas.

The analysis disclosed the following information concerning the Institution’s record of residential mortgage lending throughout the different CTs within the combined assessment area.

^a Defined based upon the MFIs of the Winston-Salem, NC MSA and North Carolina Non-MSA areas.

^b 25 loans on the L/ARs totaling \$3,702,000 did not have borrower income recorded and are omitted from this table.

^c 7.6 percent of the families in the combined assessment area had incomes below the poverty line.

^d The percentage of the number of conventional loans originated in each of the borrower income categories by HMDA-reporting lenders (includes only those regulated by OTS, FDIC, Federal Reserve Board, and OCC) in the combined assessment area during year 2009 only.

Institution (continued)

Income Level of Census Tract	Piedmont's HMDA Loan Volume: 1/01/2008 through 12/31/2010 in the Combined Assessment Area				Benchmarks	
	Number of Loans	Percent of Number	Dollar Amount	Percent of Dollar Amount	2000 Percent of O.O.H.U ^e .	^f 2009 Aggregate HMDA
Low = <50%	5	0.3%	\$315	0.1%	0.7%	0.2%
Moderate = 50-79%	67	4.4%	\$7,180	3.2%	9.0%	4.3%
Middle = 80-119%	843	55.2%	\$107,445	48.2%	60.2%	49.3%
Upper = ≥ 120%	613	40.1%	\$108,161	48.5%	30.1%	46.2%
Total	1,528	100.0%	\$223,101	100.0%	100.0%	100.0%

As shown above, the Institution's lending performance in both low-income and moderate-income census tracts was less than half of the demographic expectation. It was, however, marginally better than the aggregate lender benchmark.

We also noted that Piedmont's low- and moderate-income CT lending (0.3 percent and 4.4 percent, respectively) declined somewhat from the preceding review period (0.2 percent and 6.1 percent, respectively). This decline was less marked than that of the aggregate lenders, whose LMI CT lending declined from 0.6 percent and 8.5 percent, respectively, to 0.2 percent and 4.3 percent, respectively.

Based upon the Institution's overall level of lending within the LMI CTs, the examiner determined that Piedmont's overall geographic distribution of lending for the review period meets the standard for satisfactory performance for this criterion.

Other Lending Related Activity

In an effort to serve the lending needs of its community, including those of LMI borrowers, the Institution offers several flexible loan products. Loans originated under these programs are not in addition to, but rather are included in the loan volumes in the above tables.

First-Time Homebuyers Program: 152 loans totaling \$16,765,150 – This popular internal program is not targeted to LMI persons or LMI areas. It offers loans with no origination fee, appraisal fee, credit report fee, or flood certification fee. Private mortgage insurance is not required if the loan-to-value ratio is less than 90.0 percent. The maximum loan amount is \$200,000 and the down payment may be in the form of a gift.

^e Owner Occupied Housing Units. The numbers in this column represent the distribution percentage of owner occupied housing units in census tracts by income level, to the total number of owner occupied housing units in the combined assessment area.

^f The percentage of the number of conventional loans originated in each of the census tract income categories by HMDA-reporting lenders (includes only those regulated by OTS, FDIC, Federal Reserve Board, and OCC) in the combined assessment area during year 2009 only.

Institution (continued)

FHLB First Time Homebuyer Program: One loan in the amount of \$111,000 – This loan program in connection with the Federal Home Loan Bank of Atlanta and/or the Forsyth County Assistance Program is designed to create owner-occupied housing opportunities for LMI borrowers in Forsyth County who have not owned a home. Maximum income limitations apply.

Piedmont Affordable Loan Program (PAL), PAL PLUS, and PAL LTD: Nine loans totaling \$780,500 – These internal affordable housing loan programs target either LMI persons or LMI areas and feature flexible underwriting standards and lower closing and mortgage insurance costs.

Mortgage Credit Certificate Program (MCC): Six loans totaling \$594,400 – In conjunction with the North Carolina Housing Finance Agency, this program offers an optional federal tax credit benefit for eligible first time homebuyers.

New Homes Loan Pool Program: One loan in the amount of \$82,400 – Piedmont is an approved provider for this program offered by the North Carolina Housing Finance Agency and Forsyth County.

Declared Income Program: 44 loans totaling \$8,275,000 – This proprietary program is not targeted to LMI persons. It is available to applicants who affirm a certain minimum income, have a credit score of 725 or greater, and are borrowing less than 50 percent of the appraised value.

Loans Up to 90% LTV with No PMI Program: Eight loans totaling \$1,228,500 – This proprietary loan program, which is not targeted to LMI persons or geographies, is offered to home purchase applicants who do not qualify for a first time homebuyer program. It requires minimum credit scores to avoid PMI with LTVs up to 90 percent.

Lending Test Conclusion

Based upon Piedmont's overall record of lending within the combined assessment area, a rating of "Satisfactory" is assigned for the Lending Test. As noted above, the vast majority of the mortgage loan originations were secured by properties located within the Institution's combined assessment area. The average loan-to-deposit ratio is not as strong as the peer median ratio, but was considered reasonable for a portfolio lender. Lending to LMI borrowers and lending in LMI CTs were also reasonable when compared to the performance of the aggregate HMDA lenders and the demographics of the combined assessment area.

Institution (continued)

Community Development Test

Community Development Lending

Piedmont has participated in several community development and redevelopment projects that benefit the combined assessment area. The Institution is an active member of the Community Investment Corporation of the Carolinas (CICCAR), formerly the Community Investment Corporation of North Carolina (CICNC), a consortium of lenders formed to provide long term financing for LMI multi-family housing projects by selling participation interests to members of the organization. Most CICCAR projects have involved the sale of federal tax credits. The Institution funded 32 participations totaling approximately \$1,577,000 in a number of projects during the review period. Piedmont also committed to fund 30 additional participations totaling \$1,900,000.

Community Development Investments

Direct Investments: \$171,460

In a prior review period Piedmont purchased mortgage backed securities that have underlying mortgages secured by properties located in North Carolina and where the borrowers are either LMI or the security properties are located in LMI census tracts. As of March 31, 2011, the outstanding principal balance of these securities was \$171,460.

Contributions/Grants: \$633,700

During the review period, Piedmont made a strong level of charitable contributions within its combined assessment area. Specifically, Piedmont made charitable cash contributions totaling \$51,700 to organizations providing community development services and affordable housing, such as the Winston-Salem Community Development Support Collaborative, Habitat for Humanity, and Center for Homeownership. It also donated a former branch office building appraised at \$582,000 to the Winston-Salem Urban League.

Institution (continued)

Community Development Services

Retail Banking

Piedmont Branch Office/ATM Locations			
County	City Location	Income Level of Geography	ATM
Forsyth	Clemmons	Upper	No
	Kernersville	Middle	No
	Winston-Salem	Moderate	No
	Winston-Salem	Middle (3)	No
	Winston-Salem	Upper (2)	No
Watauga	Boone	Upper	No
Wilkes	North Wilkesboro	Middle	No
Total	10 Branch Offices		No ATMs

Piedmont does not own any proprietary ATMs. However, it is the Institution’s policy to reimburse its accountholders any foreign ATM charges for up to ten ATM transactions in a billing cycle.

One branch is located in a moderate-income CT, five branches are located in middle-income CTs, and four are located in upper-income CTs. One branch office, located in Winston-Salem in a middle-income CT, was closed since the preceding public evaluation. The Institution has adopted a branch closing policy that outlines certain procedures to be followed in the event of a branch closing. Also, one branch was relocated from a moderate-income CT in Winston-Salem to an upper-income CT five miles away.

The lobbies and drive-ins of all of Piedmont’s offices are open for business from 9:00 a.m. until 5:00 p.m. Monday through Thursday and until 6:00 p.m. on Friday. None of the offices are open on Saturday. The hours of operation are considered adequate and consistent with those of the Institution’s competitors in the various markets it serves.

Piedmont offers a wide range of personal deposit products. Although not specifically targeted to LMI individuals, the Institution offers a checking account, NOW Checking Account, which has proven to be attractive to LMI individuals. The NOW Checking Account has a minimum balance requirement of \$100.00 or a monthly service fee of \$10.00, and an opening deposit requirement of \$100.00. The account has unlimited check writing and a free ATM/Check Card with up to ten free withdrawals. As of March 31, 2011, the Institution had 2,215 NOW Checking Accounts with balances totaling approximately \$13.1 million.

Piedmont has also developed a savings account that should be attractive to LMI individuals, the Statement Savings account. This account has a minimum opening deposit requirement of \$100.00, and currently there is no service charge if the balance falls below \$100.00. As of March 31, 2011, the Institution had 9,377 Statement Savings accounts with balances totaling approximately \$62.9 million.

Institution (continued)

Piedmont participates in the federally sponsored Electronic Transfer Account (ETA) program designed for unbanked persons to safely receive regularly recurring payments at low cost. Piedmont is one of only two financial institutions that provide this service in Winston-Salem. The Institution has 43 ETA accounts.

In addition to its branch network, other retail delivery systems offered by the bank include bank by mail, free 24-hour telephone banking, internet banking, and no-cost internet bill pay services.

Community Development Services

Piedmont employees and directors are active in official capacities in several civic organizations that are engaged in community development activities. Below is a partial list of the official capacities in which Piedmont Federal officers serve:

- Board Member/Vice Chairman – North Carolina Housing Foundation, Inc.
- Board Member – Goler Manor, Inc., a home for low-income seniors
- Board Member – Winston-Salem Community Development Support Collaborative
- Board Member – Winston-Salem Downtown Partnership
- Credit and Collection/Finance Committee Member – Forsyth County Habitat for Humanity
- Board Member/Vice President – Crosby Scholars Community Partnership, Inc.
- Sponsor – Fair and Affordable Housing Summit
- Credit and Collection Committee and Finance Committee – Habitat for Humanity
- Assisted with interviewing graduates of the Individual Development Account program of Forsyth County

Further, Piedmont services approximately 247 loans for Habitat for Humanity at no charge. The Institution accepts payments, provides escrow analysis, and sends out late notices.

Piedmont Federal has 21 employees participating in the VIP Corporate Volunteers Program at elementary schools located in high-poverty areas of Winston-Salem. Each employee/volunteer is assigned an at-risk child and agrees to meet with the child at the school at least one hour per week. The goal is to improve the performance of each targeted student so that their performance will be at or above the grade level by the end of the school year.

Institution (continued)

Community Development Test Conclusion

Based upon Piedmont's overall record within the combined assessment area, a rating of "Satisfactory" is assigned for the Community Development Test. The rating was based upon Piedmont's level of community development lending, investments, and services.

Fair Lending or Other Illegal Credit Practices Review

Record of Compliance with Anti-discrimination Laws and Regulations

A sample of loan application files was reviewed at the Institution's most recent compliance examination to determine the Institution's level of compliance with anti-discrimination laws and regulations, including the OTS Nondiscrimination Regulations; the Equal Credit Opportunity Act and its implementing regulation, Regulation B; and the Fair Housing Act. That review disclosed no evidence of prohibited discriminatory lending practices or other illegal credit practices, and it appeared that all applicants were treated consistently and in accordance with the Institution's written underwriting guidelines.

Response to Community Complaints

No complaints concerning Piedmont's performance in meeting the credit needs of the combined assessment area have been received since the preceding evaluation.

Description of Institution's Operations in MSA Assessment Area:

Piedmont operates eight branch offices within the Winston-Salem, NC MSA assessment area. The branches in this assessment area are located in moderate- (Winston-Salem), middle- (Kernersville and Winston-Salem (3)), and upper-income (Clemmons and Winston-Salem) CTs.

Description of MSA Assessment Area

This assessment area comprises all of Davie, Forsyth, Stokes, and Yadkin Counties, North Carolina. This assessment area included 97 CTs with income designations, five low-income, 18 moderate-income, 50 middle-income, and 24 upper-income CTs as of the 2000 Census.

The 2000 Census data will be used to evaluate the Institution's lending to borrowers of different incomes and geographic distribution for 2008 through 2010 mortgage lending activity.

Institution (continued)

A summary of certain geographic characteristics for this assessment area based upon 2000 Census data is as follows:

DEMOGRAPHICS OF CTs			FAMILY DISTRIBUTION	
CT Category	Population	Owner-Occupied Housing Units	Income Category	Distribution of Families
Low	13,444	0.9%	Low	19.3%
Moderate	74,107	13.4%	Moderate	18.5%
Middle	225,006	56.1%	Middle	23.3%
Upper	109,404	29.6%	Upper	38.9%
Total	421,961	100.0%	Total	100.0%

The examiner’s review of 2000 Census data disclosed the following additional information about this assessment area:

Total Population	421,961
Population 16 and older	330,725 (78.4%)
Population Over 65	53,778 (12.7%)
Total Housing Units	183,129
Owner Occupied Units	118,770 (64.8%)
Rental Occupied Units	50,915 (27.8%)
1 - 4 Family Units	157,712 (86.1%)
Multi-Family Units	25,417 (13.8%)
Total Families	116,464
Families Below the Poverty Level	8,872 (7.6%)

Description of Performance in MSA Assessment Area:

Lending to Borrowers of Different Income Levels

In order to evaluate Piedmont’s record of lending to borrowers of different income levels for 2008, 2009, and 2010, family income levels were stratified as a percentage of the updated MFI for the Winston-Salem, NC MSA. The updated MFI figures, as provided by the Department of Housing and Urban Development, for the Winston-Salem, NC MSA for 2008, 2009, and 2010 were \$57,300, \$59,700, and \$59,800, respectively.

Institution (continued)

From information contained in the Institution’s 2008 through 2010 HMDA records, the examiner compiled the following borrower income distribution statistics:

Borrower Income Levels ^g	Piedmont’s HMDA Loan Volume: 1/01/2008 through 12/31/2010 in the Winston-Salem, NC MSA Assessment Area				Benchmarks	
	Number of Loans ^h	Percent of Number	Dollar Amount (000 omitted)	Percent of Dollar Amount	2000 Percent of Families ⁱ	2009 Aggregate HMDA ^j
Low = <50%	72	6.6%	\$3,655	2.2%	19.3%	6.2%
Moderate = 50-79%	204	18.7%	\$17,442	10.6%	18.5%	16.5%
Middle = 80-119%	240	22.1%	\$25,708	15.7%	23.3%	20.7%
Upper = ≥ 120%	573	52.6%	\$117,337	71.5%	38.9%	56.6%
Total	1,089	100.0%	\$164,142	100.0%	100.0%	100.0%

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within the Winston-Salem, NC MSA assessment area. However, Piedmont’s ability to originate mortgage loans to low-income borrowers may be influenced in part by the 7.6 percent of families below poverty level. The Institution’s level of mortgage lending to moderate-income borrowers slightly exceeded the percentage of moderate-income families residing within the Winston-Salem, NC MSA assessment area. Piedmont slightly outperformed the aggregate lenders in both the low-income borrower and moderate-income borrower categories.

Geographic Distribution of Loans

The examiner also performed a review to determine the adequacy of dispersion of lending with regard to lending within the LMI areas of the Winston-Salem, NC MSA assessment area for 2008, 2009, and 2010. Specifically, the examiner analyzed the percentage of residential mortgage loans, by number and dollar amount of the mortgage loans originated by Piedmont within the LMI CTs compared to the percentage of OOHUs located within those areas.

The analysis disclosed the following information concerning the Institution’s record of residential mortgage lending throughout the different CTs within the Winston-Salem, NC MSA assessment area.

^g Defined based upon the MFI of the Winston-Salem, NC MSA.

^h 18 loans on the L/ARs totaling \$2,763 did not have borrower income recorded and are omitted from this table.

ⁱ 7.6 percent of the families in the Winston-Salem, NC MSA assessment area had incomes below the poverty line.

^j The percentage of the number of conventional loans originated in each of the borrower income categories by HMDA-reporting lenders (includes only those regulated by OTS, FDIC, Federal Reserve Board, and OCC) in the Winston-Salem, NC MSA assessment area during year 2009 only.

Institution (continued)

Income Level of Census Tract	Piedmont's HMDA Loan Volume: 1/01/2008 through 12/31/2010 in the Winston-Salem, NC MSA Assessment Area				Benchmarks	
	Number of Loans	Percent of Number	Dollar Amount	Percent of Dollar Amount	2000 Percent of O.O.H.U ^k	^l 2009 Aggregate HMDA
Low = <50%	5	0.5%	\$315	0.2%	0.9%	0.2%
Moderate = 50-79%	67	6.0%	\$7,180	4.3%	13.5%	6.2%
Middle = 80-119%	545	49.2%	\$67,206	40.3%	56.0%	45.4%
Upper = ≥ 120%	490	44.3%	\$92,204	55.2%	29.6%	48.2%
Total	1,107	100.0%	\$166,905	100.0%	100.0%	100.0%

As shown above, the Institution's lending performance in low-income and moderate-income CTs was less than half of the demographic expectation overall. It did slightly worse than the aggregate lenders in low-income CTs, and slightly better in moderate-income CTs.

Description of Institution's Operations in Non-MSA Assessment Area:

Piedmont operates two offices in the Watauga and Wilkes Counties, but has also chosen to include Davidson County in the Non-MSA assessment area. The branches in this assessment area are located in middle- (North Wilkesboro) and upper-income (Boone) CTs.

Description of Non-MSA Assessment Area

This assessment area comprises all of Davidson, Watauga, and Wilkes Counties, North Carolina. This assessment area included 43 CTs with income designations, one low-income, two moderate-income, 29 middle-income, and 11 upper-income CTs as of the 2000 Census.

The 2000 Census data will be used to evaluate the Institution's lending to borrowers of different incomes and geographic distribution for 2008 through 2010 mortgage lending activity.

^k Owner Occupied Housing Units. The numbers in this column represent the distribution percentage of owner occupied housing units in census tracts by income level, to the total number of owner occupied housing units in the Winston-Salem, NC MSA assessment area.

^l The percentage of the number of conventional loans originated in each of the census tract income categories by HMDA-reporting lenders (includes only those regulated by OTS, FDIC, Federal Reserve Board, and OCC) in the Winston-Salem, NC MSA assessment area during year 2009 only.

Institution (continued)

A summary of certain geographic characteristics for this assessment area based upon 2000 Census data is as follows:

DEMOGRAPHICS OF CENSUS TRACTS			FAMILY DISTRIBUTION	
Census Tract Category	Population	Owner-Occupied Housing Units	Income Category	Distribution of Families
Low	3,663	0.4%	Low	16.3%
Moderate	7,049	1.8%	Moderate	16.9%
Middle	172,070	66.8%	Middle	22.7%
Upper	72,791	31.0%	Upper	44.1%
Total	255,573	100.0%	Total	100.0%

The examiner’s review of 2000 Census data disclosed the following additional information about this assessment area:

Total Population	255,573
Population 16 and older	204,516 (80.0%)
Population Over 65	32,703 (12.8%)
Total Housing Units	114,848
Owner Occupied Units	74,379 (64.7%)
Rental Occupied Units	27,017 (23.5%)
1 - 4 Family Units	108,657 (94.6%)
Multi-Family Units	6,191 (5.4%)
Total Families	71,548
Families Below the Poverty Level	5,390 (7.5%)

Institution (continued)

Description of Performance in Non-MSA Assessment Area:

Lending to Borrowers of Different Income Levels

In order to evaluate Piedmont’s record of lending to borrowers of different income levels for 2008, 2009, and 2010, family income levels were stratified as a percentage of the updated MFI for the non-metropolitan areas of North Carolina. The updated MFI figures, as provided by the Department of Housing and Urban Development, for the Non-MSA areas of North Carolina for 2008, 2009, and 2010 were \$48,100, \$49,900, and \$50,400, respectively.

From information contained in the Institution’s 2008 through 2010 HMDA records, the examiner compiled the following borrower income distribution statistics:

Borrower Income Levels ^m	Piedmont Federal’s HMDA Loan Volume: 1/01/2008 through 12/31/2010 in the Non-MSA Assessment Area				Benchmarks	
	Number of Loans ⁿ	Percent of Number	Dollar Amount (000 omitted)	Percent of Dollar Amount	2000 Percent of Families ^o	2009 Aggregate HMDA ^p
Low = <50%	11	2.7%	610	1.1%	16.3%	4.2%
Moderate = 50-79%	74	17.9%	5,630	10.2%	16.9%	12.3%
Middle = 80-119%	92	22.2%	9,413	17.0%	22.7%	18.8%
Upper = ≥ 120%	237	57.2%	39,604	71.7%	44.1%	64.7%
Total	414	100.0%	55,257	100.0%	100.0%	100.0%

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within the Non-MSA assessment area. However, Piedmont’s ability to originate mortgage loans to low-income borrowers may be influenced in part by the 7.5 percent of families below poverty level. The Institution’s level of mortgage lending to moderate-income borrowers slightly exceeded the percentage of moderate-income families residing within the Non-MSA assessment area. Piedmont underperformed the aggregate lenders in the low-income borrower lending, while it outperformed the aggregate in moderate-income borrower lending. Overall, Piedmont’s LMI borrower percentage (20.6 percent) exceeded the aggregate LMI borrower percentage (16.5 percent).

Geographic Distribution of Loans

^m Defined based upon the MFI of Non-MSA counties in NC.

ⁿ Seven loans on the L/ARs totaling \$939,000 did not have borrower income recorded and are omitted from this table.

^o 7.5 percent of the families in the Non-MSA assessment area had incomes below the poverty line.

^p The percentage of the number of conventional loans originated in each of the borrower income categories by HMDA-reporting lenders (includes only those regulated by OTS, FDIC, Federal Reserve Board, and OCC) in the Non-MSA assessment area during year 2009 only.

Institution (continued)

The examiner also performed a review to determine the adequacy of dispersion of lending with regard to lending within the LMI areas of the Non-MSA assessment area for 2008, 2009, and 2010. Specifically, the examiner analyzed the percentage of residential mortgage loans, by number and dollar amount of the mortgage loans originated by Piedmont within the LMI CTs compared to the percentage of owner-occupied housing units (OOHUs) located within those areas.

The analysis disclosed the following information concerning the Institution’s record of residential mortgage lending throughout the different CTs within the Non-MSA assessment area.

Income Level of Census Tract	Piedmont’s HMDA Loan Volume: 1/01/2008 through 12/31/2010 in the Non-MSA Assessment Area				Benchmarks	
	Number of Loans	Percent of Number	Dollar Amount	Percent of Dollar Amount	2000 Percent of O.O.H.U ^q .	^r 2009 Aggregate HMDA
Low = <50%	0	0.0%	\$0	0.0%	0.4%	0.2%
Moderate = 50-79%	0	0.0%	\$0	0.0%	1.8%	0.9%
Middle = 80-119%	298	70.8%	\$40,239	71.6%	66.8%	56.5%
Upper = ≥ 120%	123	29.2%	\$15,957	28.4%	31.0%	42.4%
Total	421	100.0%	\$56,196	100.0%	100.0%	100.0%

Notwithstanding the low number of OOHUs, the Institution did not make any loans within the LMI CTs in the Non-MSA assessment area; whereas 2.2 percent of the owner occupied housing stock and 1.1 percent of the aggregate lending were in LMI CTs.

^q Owner Occupied Housing Units. The numbers in this column represent the distribution percentage of owner occupied housing units in census tracts by income level, to the total number of owner occupied housing units in the Non-MSA assessment area.

^r The percentage of the number of conventional loans originated in each of the census tract income categories by HMDA-reporting lenders (includes only those regulated by OTS, FDIC, Federal Reserve Board, and OCC) in the Non-MSA assessment area during year 2009 only.

Appendix A

Scope of Examination

SCOPE OF EXAMINATION		
Full Scope		
TIME PERIOD REVIEWED:	January 1, 2008 – December 31, 2010	
FINANCIAL INSTITUTION		PRODUCTS REVIEWED
Piedmont Federal Savings Bank		HMDA reportable loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
None		

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED ¹	OTHER INFORMATION
Winston-Salem, NC MSA	Full	One	N/A
Three Non-MSA Counties	Full	None	N/A

¹ There is a statutory requirement that the written evaluation of a multistate institution's performance must list the individual branches examined in each state.

Appendix B

Summary of State and Multistate Metropolitan Area Ratings

State or Multistate Metropolitan Area Name	Lending Test Rating	Community Development Test Rating	Overall State Rating
N/A			

CRA Rating Definitions

There are five separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the intermediate small institution test for intermediate small savings associations; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, service, and community development opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.