

PUBLIC DISCLOSURE

May 9, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Tecumseh Federal Bank
160 N Fourth St
Tecumseh, NE 68450-0318
Docket #: 05275**

**Office of Thrift Supervision
Central Region
1 South Wacker Drive, Suite 2000
Chicago, IL 60606**

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

Central Region

One South Wacker Drive, Suite 2000, Chicago, IL 60606
Telephone: (312) 917-5000 * Fax: (312) 917-5001 * Website: www.ots.treas.gov

June 24, 2011

Board of Directors
Tecumseh Federal Bank
160 N Fourth St
Tecumseh, NE 68450-0318

OTS No. 5275

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of May 9, 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,

Georgia Chisolm
Assistant Director, Compliance

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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 Tecumseh Federal Bank. The Office of Thrift Supervision (OTS) prepared the evaluation as of May 9, 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.

A majority of the bank's home loans are secured by properties located within the assessment area. The loan-to-deposit (LTD) ratio decreased from 85 percent to 76 percent, and is in need of improvement. The lending to low- and moderate-income borrowers was excellent, and the lending within moderate-income geographies was reasonable. There were no apparent violations of the substantive provisions of the anti-discrimination laws and regulations, and Tecumseh Federal did not receive any CRA related complaints.

Scope of Examination

We evaluated the bank's CRA performance through an analysis of residential mortgage loans that the bank originated between January 1, 2008 and December 31, 2010. We calculated the LTD ratio for the eight-quarter period ending December 31, 2010 using the Office of Thrift Supervision's (OTS) Uniform Thrift Performance Report (UTPR). The bank has one office, which is not located within a metropolitan statistical area (MSA); therefore the Home Mortgage Disclosure Act (HMDA) rules do not apply to the institution. Nonetheless, the bank maintains a loan application register (LAR) that contains the type of home loans reported by institutions that are subject to the HMDA requirements. We based our public evaluation on the loans contained on the bank's LAR.

We utilized HMDA lending data reported by other lenders (aggregate data) for the assessment area and we obtained deposit information about insured depository institutions in the assessment area from the Federal Deposit Insurance Corporation (FDIC). We also considered 2000 census information in forming our conclusions about the institution's performance. The prior CRA evaluation conducted on May 30, 2006, resulted in a rating of "Satisfactory."

Description of Institution

Tecumseh Federal, which operates from one office in Tecumseh, Nebraska, is a SAIF insured federally chartered mutual thrift with total assets totaling almost \$56 million as of December 31, 2010. The bank's loan portfolio consists mainly of residential mortgage loans secured by one-to-four family dwellings (90 percent). The bank has not opened or closed any branches since the previous evaluation.

As of December 31, 2010, the loan portfolio totaled \$57.3 million. Table 1 shows a summary of this portfolio as of the aforementioned date.

Institution (continued)

Table 1 - Tecumseh Federal Bank Investment in Loans December 31, 2010 Thrift Financial Report			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Residential Mortgage	\$28,911	90.2%	51.7%
Nonresidential Mortgage	2,281	7.1%	4.1%
Commercial Nonmortgage	600	1.9%	1.1%
Consumer	249	0.8%	0.4%
Total	\$32,041	100.0%	57.3%

There were no economic or legal constraints identified that would inhibit the bank's ability to meet the various community credit needs.

Description of Assessment Area

Tecumseh Federal's assessment area consists of eight contiguous counties (Gage, Jefferson, Johnson, Nemaha, Otoe, Pawnee, Richardson, and Thayer). This area is primarily rural in nature, with the population centered near several small towns. The largest employers are Tecumseh State Correction Institute, MBA Poultry, Johnson County Hospital, and local government entities. Table 2 shows the assessment area's demographic data, which is based on the 2000 census.

Table 2 -Demographic Data Tecumseh Federal's Assessment Area	
Demographic Data	2000 Census
Population	77,459
Total Families	21,247
1-4 Family Units	31,432
Multi-family Units	1,966
% Owner-Occupied Units	67%
% Rental-Occupied Units	23%
% Vacant Housing Units	10%
Weighted Average Median Housing	\$61,233

Table 3 shows the number of geographies in each income level and compares it to the distribution of families living in those geographies and to housing units located within those geographies. As shown in the table, the assessment area does not contain any low or upper income geographies.

Institution (continued)

Geog Inc Level	Geographies		Total Area Families		Owner-Occupied Housing Units	
	#	%	#	%	#	%
2000 Census:						
Moderate	2	7.7%	814	3.8%	868	3.7%
Middle	24	92.3%	20,433	96.2%	22,663	96.3%
Total	26	100.0%	21,247	100.0%	23,531	100.0%

The Department of Housing and Urban Development (HUD) annually adjusts the 2000 census data to update the median family income levels. Table 4(a) shows the updated HUD median family income for each year during the review period based on the average state-wide non-MSA income for Nebraska. Table 4(b) shows the distribution of families in the assessment area.

Year	Amount
2008	\$51,800
2009	\$53,700
2010	\$54,200

Family Income Category (% of non-MSA Median)	2000 Census Data	
	Number	Percent
Low (< 50%)	3,529	16.6
Moderate (50% - 79%)	4,177	19.6
Middle (80% - 119%)	5,464	25.7
Upper (>= 120%)	8,077	38.1
Total	21,247	100.0

Conclusions with Respect to Performance Tests

Loan-to-Deposit Ratio

For the eight-quarter period ending December 31, 2010, the bank had an average LTD ratio of 76.0 percent. To evaluate Tecumseh Federal’s LTD ratio, we considered the comparative data, for the same period for OTS regulated institutions. The bank’s LTD was considerably lower than the median group, which had an eight-quarter average of 86.4 percent. Tecumseh Federal’s LTD has been steadily decreasing, with a high on June 31, 2009 of 89.4 percent, and a low on December 31, 2010, of 68.7 percent. We attribute this decrease in LTD to an increase in deposits. There has also been some erosion of mortgage loans due to the bank retaining the mortgages and not

Institution (continued)

reducing interest rates. Based on this information, we conclude that the bank's LTD ratio is in need of improvement.

Institution (continued)

Lending Inside of the Assessment Area

For this analysis, we considered the loan categories that are normally HMDA reportable (home purchase, home refinance, and home improvement). During the three-year review period, in these lending categories, the bank originated 113 loans, totaling \$12.1 million. This included 57 loans (50 percent), totaling \$4.6 million (38 percent) that were secured by properties located within the assessment area. These percentages show the bank provides an adequate amount of home financing in its assessment area.

Period	Inside Assessment Area		Outside Assessment Area		Total Mortgages
	#	%	#	%	#
2008	14	48	15	52	29
2009	22	63	13	37	35
2010	21	43	28	57	49
Total	57	50	56	50	113
	\$ Amt	%	\$ Amt	%	\$ Amt
2008	912	42	1,287	58	2,199
2009	1,219	58	874	42	2,093
2010	2,440	31	5,353	69	7,793
Total	4,571	38	7,514	62	12,085

Lending to Borrowers of Different Incomes

The following table shows the borrower income distribution of Tecumseh Federal’s home purchase and refinancing loans for the review period in the assessment area. The table compares the activity to the aggregate lending averages in the assessment area for 2009.

Institution (continued)

Table 6 - Comparison of Residential Mortgage Loans By Borrower Income Level in the Assessment Area (Dollars in thousands)			
Income Category	Tecumseh Federal 01/01/2008-12/31/2010		Aggregate Lenders During 2009
	#	%	
Low	10	17.5	8.2
Moderate	13	22.8	18.1
Middle	11	19.3	25.5
Upper	23	40.4	41.0
Income NA	0	0.0	7.2
Total	57	100.0	100.0
	\$	%	% by \$
Low	334	7.3	3.9
Moderate	558	12.2	11.6
Middle	728	15.9	22.5
Upper	2,951	64.6	53.3
Income NA	0	0.0	8.7
Total	4,571	100.0	100.0

The previous table shows that Tecumseh Federal’s lending to low- and moderate-income borrowers is well above the percentage of the aggregate. The bank’s distribution of residential loans to low- and moderate-income borrowers exceeds both the percentage distribution of low- and moderate-income families and the percentage distribution of residential loans made by the HMDA aggregate in the assessment area.

Based on this information, we conclude that Tecumseh Federal’s performance in this category is excellent.

Geographic Distribution of Loans

Table 7 shows Tecumseh Federal’s geographic distribution of home purchase and refinance loans made during the review period. As previously noted, the assessment area does not contain any low or upper income geographies.

Institution (continued)

<i>Table 7 -Comparison of Residential Mortgage Loans By Geographic Distribution in the Assessment Area (Dollars in Thousands)</i>			
Income Category	Tecumseh Federal 01/01/2008-12/31/2010		Aggregate Lending During 2009
	#	%	
Moderate	2	3.5	2.7
Middle	55	96.5	97.3
Total	57	100.0	100.0
	\$	%	% by \$
Moderate	81	1.8	1.7
Middle	4,490	98.2	98.3
Total	4,571	100.0	100.0

As shown in Table 7, Tecumseh Federal’s distribution, based on the number of loans, in the moderate-income geographies is above the reported aggregate for 2009. The bank’s penetration of residential loans in moderate-income geographies is comparable to the percentage of owner-occupied housing units in moderate-income geographies and exceeds the percentage penetration of residential loans made by the HMDA aggregate in moderate-income geographies in the assessment area.

Based on this information,, we conclude that Tecumseh Federal’s geographic distribution is reasonable.

Response to Complaints

During the review period, the bank did not receive any written complaints pertaining to its CRA performance.

Fair Lending or Other Illegal Credit Practices Review

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified during the most recent examination in which we evaluated compliance with consumer laws and regulations.

CRA Rating Definitions

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; 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, and service 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.