



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 30, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Savings and Loan Association of Independence
Charter Number 700391

112 E. Myrtle St
Independence, KS 67301

Office of the Comptroller of the Currency
1027 S. Main St., Suite 405
Joplin, MO 64801

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: Satisfactory

Lending performance for First Federal Savings and Loan Association of Independence (First Federal) is satisfactory. Major factors that support this rating are:

- First Federal originated a majority of loans within its assessment area (AA).
- The loan-to-deposit (LTD) ratio reflects more than reasonable responsiveness toward meeting the credit needs of the community.
- The bank's distribution of loans reflects reasonable penetration among borrowers of low and moderate income levels.
- The bank received no consumer complaints concerning its performance in meeting the community's credit needs.

SCOPE OF EXAMINATION

The scope of this examination included evaluating First Federal based on the small bank CRA examination procedures, and focused primarily on the lending test. Our objective was to assess the bank's ability to serve and meet the community's needs within its AA. First Federal's primary loan products are 1-4 family residential real estate (RRE) and consumer loans based on dollar volume. To assess the bank's performance, we selected a random sample of 60 1-4 family RRE purchase, refinance, and home improvement loans and 60 consumer loans originated from January 1, 2010 through June 30, 2012. We used the sample to determine the bank's lending record to individuals of different income levels, the bank's lending record within low and moderate income geographical census tracts, and the percentage of the bank's loan originations that are extended to individuals located within the AA.

DESCRIPTION OF INSTITUTION

First Federal is a \$168 million financial institution headquartered in Independence, Kansas. Independence is located in Montgomery County in the southeast corner of Kansas. First Federal is wholly owned by First Independence Corporation, a one-bank holding company. In addition to its main office, First Federal operates three full-service branches, all with ATMs, and two free-standing ATMs. There has not been any significant change to First Federal's corporate structure, such as merger or acquisition activities, since the last CRA examination.

The bank offers a full range of deposit and loan products and services. As of June 30, 2012, First Federal reported net loans of \$97 million, and had a net loans and leases to average assets ratio of 58.6 percent. Residential mortgage and consumer lending is the primary business focus, with RRE comprising a majority of the loan portfolio. There are no legal or financial impediments to First Federal's ability to meet the credit needs of its AA.

First Federal received a Satisfactory rating at its last CRA examination dated December 31, 2006.

DESCRIPTION OF ASSESSMENT AREA

First Federal has one AA which includes all of Montgomery, Wilson and Crawford counties. The AA area does not include a metropolitan statistical area. The AA consists of six moderate-income tracts, 21 middle-income tracts, and one upper-income tract with a total population of 84,826. Demographic data shows the 2011 median family income is \$39,389 and the average median housing value is \$51,579. Approximately 14.9 percent of households are below the poverty level. This AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Management characterizes the local economy as stable. Economic activity in the area is relatively diverse, with airline industry, small manufacturing, and service companies being the primary economic activities. Average unemployment for the area is higher than the national average of 8.3 percent. Competition from other financial institutions is average. The bank's competitors include several local community banks, branches of large regional banks, and several mortgage/finance companies.

In conducting our assessment of the bank's performance, we contacted two individuals within the community. These individuals represented a local housing authority and small business development group. Both contacts stated that the community has an array of low-to-moderate income housing. The latter contact identified small business lending as a primary need within the community. Both contacts stated all financial institutions in the area are meeting credit needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

First Federal's performance under the lending test is satisfactory. A majority of loans originated are located within its AA. The bank's LTD ratio reflects reasonable responsiveness toward meeting the credit needs of the community. No complaints have been filed pertaining to the bank's performance in helping to meet the credit needs of the AA.

First Federal was found to have reasonable penetration in lending to borrowers of different income levels. The home loan portion of the test received the majority of the weight due to the composition of the portfolio. First Federal's geographical distribution of loans was reasonable, but did not receive a lot of weight because the bank's AA does not contain any low-income census tracts. All criteria of the lending test are documented below.

Loan-to-Deposit (LTD) Ratio

First Federal's LTD ratio is reasonable given its size, financial condition, and AA credit needs. The bank's quarterly net LTD ratio averaged 109 percent since the last CRA examination. This compares favorably to a quarterly net LTD ratio for similarly situated institutions in Montgomery, Crawford, and Wilson counties that ranged from 34 percent to 97 percent.

Lending in Assessment Area

First Federal's record of lending to borrowers in the AA is reasonable given its size, financial condition, and AA credit needs. Based on our sample, a majority of the loans were made inside the AA. We reviewed 1-4 family purchase, refinance, and home improvement loans and consumer loans. Our review found First Federal originated 75 percent of its 1-4 residential by number and 56 percent by dollar volume inside the AA.

The bank originated 60 percent of its consumer loans by number and 53 percent by dollar volume inside the AA.

Lending to Borrowers of Different Incomes

The bank’s distribution of loans reflects reasonable penetration among borrowers of low and moderate income levels.

Home Loans

The distribution of home loans reflects reasonable penetration among borrowers of different income levels. First Federal’s lending to low- and moderate-income borrowers is reasonable. The following table details the distribution of home loan products among borrowers of different income levels for the period of January 1, 2010 through June 30, 2012 as compared to the percent of families in each income category.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
1-4 Family Residential	21.66%	12.96%	20.95%	16.67%	24.84%	25.93%	32.56%	40.74%

Source: residential real estate loan data sampled from 2010-2012; 2011 HUD Updated Median Family Income.

Consumer Loans

The distribution of consumer loans reflects reasonable penetration among borrowers of different income levels. First Federal’s consumer lending to low-income individuals is below census tract data and reflects poor penetration. However, we considered that 14.9 percent of the households are below the poverty level, which could significantly limit management’s ability to make consumer loans to qualified low-income borrowers. The bank’s consumer lending to moderate-income individuals is reasonable. The following table details the distribution of consumer loan products among borrowers of different income levels for the period of January 1, 2010 through June 30, 2012 as compared to the percent of households in each income category.

Borrower Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA households	% of Number of Loans	% of AA households	% of Number of Loans	% of AA households	% of Number of Loans	% of AA households	% of Number of Loans
Consumer Loans	28.12%	4.00%	17.71%	16.00%	19.03%	26.00%	35.14%	52.00%

Source: consumer loan data sampled from 2010-2012; 2000 U.S. Census data

Geographic Distribution of Loans

The bank’s distribution of loans reflects a reasonable distribution throughout census tracts of different income levels. The home loan portion of the test received the majority of the weight due to composition of the loan portfolio. There were no conspicuous gaps identified within the bank’s AA.

Home Loans

First Federal’s geographic distribution of home loans in the AA reflects a reasonable dispersion throughout census tracts of different income levels, including the moderate-income census tract. There are no low-income census tracts in the AA. The following table details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
1-4 Family Residential	N/A	N/A	13.35%	9.26%	81.36%	77.78%	5.29%	12.96%

Source: residential real estate loan data sampled from 2010-2012; 2000 U.S. Census data

Consumer Loans

The bank’s geographic distribution of consumer loans in the AA reflects a poor dispersion in the moderate-income census tract. The bank’s performance ratio is below the AA households’ percent of 16.84. There are no low-income census tracts in the AA. The following table details the bank's performance as compared to the percentage of households in each census tract income level.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA households	% of Number of Loans	% of AA households	% of Number of Loans	% of AA households	% of Number of Loans	% of AA households	% of Number of Loans
Consumer Loans	N/A	N/A	16.84%	10.20%	76.30%	89.80%	6.85%	0%

Source: consumer loan data sampled from 2010-2012; 2000 U.S. Census data

RESPONSES TO COMPLAINTS

During the evaluation period, First Federal did not receive any written consumer complaints about its performance in helping to meet the credit needs of its AA.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES

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