



PUBLIC DISCLOSURE

July 07, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kopernik Federal Bank
Charter Number 704295

2101 Eastern Ave
Baltimore, MD 21231-3108

Office of the Comptroller of the Currency

400 7th Street S.W.
Washington, DC 20291

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**

The Lending Test is rated: **Satisfactory**

The major factors that support these ratings include:

- The Bank's lending in assessment area meets the standards for satisfactory performance. Seventy-Five percent of all home purchase, home improvement, and refinance loans originated in the review period were within the Bank's assessment area.
- The overall performance of lending to borrowers of different incomes reflects reasonable proportion and meets the standards for satisfactory performance.
- The overall performance for the geographic distribution of loans reflects reasonable distribution and meets the standards for satisfactory performance.
- The loan-to-deposit ratio does not meet the standards for satisfactory performance and is less than reasonable based on the Bank's size, financial condition, and relevant competitive factors.

SCOPE OF EXAMINATION

The Community Reinvestment Act (CRA) Performance Evaluation (PE) for Kopernik Federal Bank (“KFB” or “Bank”) was conducted in accordance with the small bank evaluation procedures. Under the small bank evaluation procedures, KFB’s CRA performance will be assessed under the lending test. The lending test evaluates the Bank’s record of meeting the credit needs of its assessment area (AA) through its lending activities.

The evaluation period for the lending test is January 1, 2011 to December 31, 2013. Based upon the Bank’s internally prepared loan report, we determined the Bank’s primary loan products are home purchase, home improvement, and refinance loans. Due to the Bank’s size, the Bank was not a HMDA reporter in 2011 and 2012; however, after the merger with Hull Federal Savings Bank, the bank became a HMDA reporter in 2013.

DESCRIPTION OF INSTITUTION

Kopernik Federal Bank is a federally chartered, mutual savings association headquartered in Baltimore City, MD. The Bank opened in 1924 and acquired Hull Federal Savings Bank (HFSB) in 2012. After the acquisition of HFSB, KFB now has two branches, both of which are located in Baltimore City, Maryland. The branches are in middle and upper income census tracts.

As of December 31, 2013, the Bank had total assets of \$71.1 million and Tier 1 Capital of \$7.66 million. At December 31, 2013, the Bank reported net loans and leases of \$45.3 million or 63.7% of total assets. The Bank’s loan portfolio consists primarily of 1-4 family residential loans, with these loans totaling 90.09% of total loans.

Loan originations dropped 52% since the prior CRA evaluation on April 28, 2008. KFB originated 72 loans during the current CRA evaluation period compared to 138 loans during the prior CRA review period. Kopernik offers conventional mortgage loans, home equity loans, automobile loans, and passbook loans. The Bank offers deposit products including IRA and regular certificates of deposit, passbook savings accounts, and business and personal checking accounts.

Both KFB and HFSB were assigned “Outstanding” CRA ratings at their preceding CRA evaluations conducted by the Office of Thrift Supervision on April 28, 2008 and April 27, 2009 respectively. There were no legal or regulatory impediments adversely affecting the Bank’s ability to meet community credit needs during this review period.

DESCRIPTION OF ASSESSMENT AREA

The Bank’s assessment area includes:

Kopernik Federal Bank’s Assessment Area Baltimore-Towson, MD MSA 12580		
Anne Arundel County	Baltimore City	Baltimore County

KFB’s assessment area contains a variety of economic environments including cities, suburban communities and rural towns in low, moderate, middle and upper income census tracts. Major industries in the area include state and local government, health care services, biosciences, financial industry, manufacturing and retail trade. According to the U.S. Bureau of Labor Statistics, the unemployment rate in the Bank’s assessment area is 6.57% as of May 2014.

The Bank faces competition from branches of larger regional and national banks as well as local community banks in its assessment area. These large financial institutions have extensive branch network systems throughout the region. According to the June 30, 2013 FDIC Summary of Deposit Market Share report, five financial institutions have 73.57% of the deposit market share, while KFB has 0.10% of the deposit market share.

Table 1, which is based on 2010 Census data, sets forth certain demographic characteristics of the Bank’s assessment area:

Table 1: Demographic Information for Kopernik Federal Bank 2013 AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	304	28.62	27.63	20.72	21.71	1.32
Population by Geography	1,158,617	20.19	26.41	24.67	27.87	0.86
Owner-Occupied Housing by Geography	267,081	12.12	23.80	28.33	35.74	0.00
Business by Geography	95,714	13.71	19.36	31.06	35.56	0.31
Farms by Geography	1,256	4.30	11.15	32.17	52.39	0.00
Family Distribution by Income Level	264,625	28.13	18.05	19.33	34.49	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	122,206	32.71	33.89	20.10	13.30	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		81,788 85,600 13%	Median Housing Value Unemployment Rate (May 2014 U.S Bureau of Labor Statistics)		260,171 6.57%	

Source: 2010 US Census and 2013 HUD updated MFI

The assessment area consists of 304 census tracts. Of the 304 tracts, there are 87 low-income geographies (28.62%), 84 moderate-income geographies (27.63%), 63 middle-income geographies (20.72%), 66 upper-income geographies (21.71%), and 4 geographies (1.32%) that were not assigned an income classification.

The 2010 Census data reported the total population of the assessment area at 1.16 million. Within the assessment area, there are 264,625 families. Of these, 28.13% are low-income, 18.05% are moderate-income, 19.33% are middle-income, and 34.49% are upper-income. Median family income is \$81,788 and the 2013 HUD Adjusted Median Family Income is \$85,600. Approximately 13% of households are below the poverty level.

Per the 2010 Census data, there are 267,081 owner-occupied housing units, of which, 12.12% are in low-income geographies, 23.80% are in moderate-income, 28.33% are in middle-income, and 35.74% are in upper-income geographies. The median housing value is \$260,171. Per 2012 estimates, there are 758,647 housing units, of which, 61.71% are owner-occupied, and 38.29% are rental-occupied units.

In assessing the Bank's performance, we reached out to a local community development organization to gain a better understanding of the community needs. Affordable homes are the primary concern for the AA. There is also a need for access to traditional banking services in the AA. According to community contacts, there are opportunities for local financial institutions to participate in the community beyond monetary contributions. Community contacts noted that volunteering, financial literacy and educational training programs administered by bank staff would be beneficial to the community.

Conclusions with Respect to Performance Tests

Loan-to-Deposit Ratio

KFB's average LTD ratio for the twelve quarters of the performance evaluation is less than reasonable and does not meet the standards for satisfactory performance. The Bank's average LTD ratio was 75.02%, and ranged from a high of 79.54% to a low of 71.73%. The average LTD ratio for peer banks was 85.22%.

Lending in Assessment Area

KFB's lending in the assessment area meets the standards for satisfactory performance. In total, the Bank originated 72 loans totaling \$14.9 million over the assessment period. Of the 72 originations, 75% were originated within the Bank's assessment area.

Table 2 displays the breakdown originations by loan type as follows:

Table 2: Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	19	76.00	6	24.00	100	4,136	74.08	1,447	25.92	100
Home Improvement	2	100	0	0.00	100	409	100	0	0.00	100
Refinance	33	73.33	12	26.67	100	6,213	69.70	2,701	30.30	100
Total	54	75.00	18	25.00	100.00	10,758	72.17	4,148	27.83	100.00

Source: Data collected by the Bank.

Lending to Borrowers of Different Incomes

The Bank's distribution of home purchase, home improvement, and refinance loans meets the standards for satisfactory performance. KFB meets the needs of LMI borrowers in the assessment area. The level of refinance loans originated to moderate-income borrowers is significantly higher than the percentage of moderate-income families in the assessment area. In addition, the Bank compares favorably in the distribution of home purchase loans to moderate-income borrowers. However, the Bank does not compare favorably in home improvement loans to moderate-income borrowers.

Table 3 compares the borrower distribution of residential real estate loans in the Baltimore County, Baltimore City, and Anne Arundel County assessment area by income level of the borrowers and number of loans the Bank originated:

Table 3: Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	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
Home Purchase	28.13	10.53	18.05	15.79	19.33	31.58	34.49	42.11
Home Improvement	28.13	0.00	18.05	0.00	19.33	0.00	34.49	100.00
Refinance	28.13	12.12	18.05	24.24	19.33	15.15	34.49	48.48

Source: Data Collected by Bank. U.S. Census data.

The table indicates that the percentage of mortgage loans made by KFB to low-income borrowers in the assessment area was below the percentage of low-income families in the assessment area. However, 13% of families within the assessment area have incomes below the poverty level and may find it difficult to qualify for a home loan. When this statistic is considered, KFB’s record of lending to low-income borrowers appears more in line with demographics.

Geographic Distribution of Loans

The geographic distribution of loans meets the standards for satisfactory performance. The geographic distribution of loans reflects reasonable distribution in the assessment area. The distribution of refinance loans in moderate-income tracts exceeds the percentage of owner occupied units in moderate-income tracts. In addition, the geographic distribution of home purchase in LMI tracts is relatively high compared to the percentage of owner-occupied units in these tracts. However, the distribution of home improvement and refinance loans to low-income census tracts falls well below the percent of owner occupied units in low-income tracts.

Table 4 compares the geographic distribution of residential real estate loans in the Baltimore County, Baltimore City, and Anne Arundel County assessment area by number of owner occupied units in the geographical income level and number of loans the Bank originated:

Table 4: Geographic Distribution of Residential Real Estate Loans in AA								
Geographical Income Level	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans
Home Purchase	12.12	10.53	23.81	21.05	28.33	31.58	35.74	36.84
Home Improvement	12.12	0.00	23.81	50.00	28.33	0.00	35.74	50.00
Refinance	12.12	6.06	23.81	27.27	28.33	45.45	35.74	21.21

Source: Data collected by Bank. U.S. Census data.

Responses to Complaints

Since the preceding evaluation, KFB has not received any complaints concerning the Bank’s performance in meeting the credit needs of the assessment area.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 12 CFR 195.28(c), in determining a National Bank’s (Bank) or Federal Savings Association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the Bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the Bank’s or FSA’s lending performance.

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