



## **PUBLIC DISCLOSURE**

May 21, 2015

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Kentland FS & LA  
Charter Number 702228

116 N 3rd St  
Kentland, IN 47951-1212

Office of the Comptroller of the Currency  
8777 Purdue Road  
Suite 105  
Indianapolis, IN 46268

**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: This institution is rated Satisfactory.**

The major factors supporting Kentland FS & LA's (Kentland or Bank) rating include:

- The average loan-to-deposit ratio is more than reasonable, considering Kentland's size, financial condition, and assessment area credit needs.
- A substantial majority of the Kentland's loans were originated outside the bank's assessment area (AA).
- The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- Kentland did not receive any consumer complaints regarding its Community Reinvestment Act (CRA) performance during the evaluation period.

**SCOPE OF EXAMINATION**

This performance evaluation (PE) addresses Kentland's CRA performance from October 16, 2008 to March 31, 2015. We assessed Kentland's CRA performance using Small Bank examination procedures, which include a lending test. As applicable, the lending test includes an evaluation of the bank's lending practices with respect to the following criteria:

- Loan-to-deposit ratio, considering internal and external factors,
- Percentage of loans originated within the bank's AA,
- Lending to borrowers of different income levels and businesses of different sizes,
- Lending in low- and moderate-income geographies within the AA, and
- The bank's record of taking action to written complaints regarding its performance in helping meet the credit needs of its AA.

To evaluate Kentland's lending practices, we completed a full-scope analysis of its AA. We considered data from a representative sample of the bank's primary loan products. This sample consisted of all home purchase and home refinance loans originated by Kentland from January 1, 2012 to March 31, 2015. Since Kentland is not subject to the Home Mortgage Disclosure Act, we gathered the relevant information directly from loan file documentation.

## DESCRIPTION OF INSTITUTION

Kentland is a federally chartered, mutual savings bank that continues to operate from a single office in Kentland, Indiana. The bank has one full-time and one part-time employee. As of March 31, 2015, Kentland had total assets of \$ 5.0 million, which makes it the smallest of the six financial institutions taking deposits in Newton County. Kentland is a traditional, community-oriented savings bank that primarily originates single-family residential loans for its portfolio and solicits savings and certificate of deposit accounts.

As of March 31, 2015, the loan portfolio represented the majority or 86.2 percent of the bank’s total assets. Gross loans totaled \$4.3 million and consisted of residential mortgage loans (99.1 percent) and nonresidential loans (0.9 percent). The remainder of the bank’s assets consisted mostly of mortgage-backed securities and interest-earning deposits. The bank’s total liabilities of \$4.4 million primarily included core deposits (88.2 percent) and borrowings (11.4 percent). Equity and tier 1 capital was \$647,000 or 12.9 percent of total assets.

Kentland’s activities are consistent with its size, financial capability, and local economic conditions. Kentland received a CRA rating of Satisfactory, based on its last CRA performance evaluation dated October 15, 2008.

## DESCRIPTION OF ASSESSMENT AREA(S)

Kentland defines its AA as all of Newton County, Indiana, which is located approximately 100 miles northwest of Indianapolis. Newton County is one of four counties that make up the Gary, Indiana Metropolitan Division (MD). The AA consists of four census tracts, all of which are middle-income. Kentland’s AA meets the requirements of CRA and does not arbitrarily exclude any low- or moderate-income geographies.

The following table presents additional demographic data for the AA.

<b>Demographic Information for Newton County AA</b>	
Population	14,244
Families	3,943
Households	5,446
Housing Stock: <i>1-4 family housing units</i>	94.3%
Occupancy: <i>owner-occupied, renter-occupied, vacant</i>	73.9%, 16.3%, 9.9%
Home Values: <i>Median home value</i>	\$109,049
Age of Homes: <i>Median year of homes built</i>	1960
Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	16.1%, 22.7%, 27.9%, 33.4%
Weighted Average of Census MSA Median Family Income	\$62,512

Weighted Average of FFIEC 2014 Updated MSA Median Family Income	\$63,700
Families Below Poverty Level	4.8%
Households Below Poverty Level	8.0%
Unemployment Rate for March 2015 from Bureau of Labor Statistics	7.3%

Sources: 2010 Census Data and Bureau of Labor Statistics

Competition is notable and consists of four state banks and a large regional bank. As of June 30, 2013, Kentland and the other five financial institutions operated nine branches in Newton County and held deposits of \$327.3 million. Kentland's single branch with \$3.9 million of the deposits represented a market share of 1.19 percent; this ranks Kentland sixth in deposit market share.

A community contact from USDA Rural Development commented that USDA loan programs are available for financing single-family homes. The contact further commented that none of the local banks are involved with these programs. Kentland's small asset size limits its ability to offer this loan product.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The conclusions with respect to performance criteria regarding the bank's primary loan product, which is residential real estate lending, are as follows:

### **Loan-to-Deposit Ratio**

Kentland's loan-to-deposit (LTD) ratio is more than reasonable given its asset size, financial condition, and AA credit needs. The bank's quarterly LTD over the 27 quarters since the prior CRA performance evaluation averaged 100.83 percent. During this timeframe, the quarterly LTD ratio ranged from a low of 86.20 percent to a high of 111.47 percent.

In comparison, Kentland's average quarterly LTD ratio of 100.83 percent is favorable to the ratio for the five other financial institutions located within the AA. The corresponding LTD ratio for these banks ranged from 67.16 percent to 77.88 percent and averaged 73.90 percent.

### **Lending in Assessment Area**

A substantial majority of the loans originated by the bank were outside the AA. From January 1, 2012 through March 31, 2015, Kentland originated 16 loans totaling \$1.6 million. Six of the originated loans or 37.5 percent were inside the AA.

Given its limited resources, Kentland only offers conventional financing and does not underwrite loans for sale in the secondary market. As such, it is difficult for the bank to compete at prevailing market rates.

**Lending to Borrowers of Different Incomes**

Kentland’s overall lending to borrowers of different incomes shows excellent penetration. For this performance factor, Kentland’s ratios for home mortgage originations were compared to the ratios of the HMDA peer group and to relevant demographic ratios for the AA. Lending to low- and moderate-income borrowers received the most emphasis.

The table below summarizes the ratios for Kentland’s home mortgage lending to borrowers of different incomes within its AA from January 1, 2011 through March 31, 2015.

<b>Borrower Income Distribution Comparative Analysis</b>			
<b>Borrower Income Category</b>	<b>Kentland Percentage</b>	<b>HMDA Peer Group 2013</b>	<b>Family Distribution Percentage</b>
Low	16.67%	14.39%	16.08%
Moderate	50.00%	24.94%	22.65%
Middle	16.67%	28.78%	27.92%
Upper	16.66%	31.89%	33.35%
Total	100.00%	100.00%	100.00%

Note: 4.8 percent of families are below the poverty level.

Kentland’s ratios for loans to low- and moderate- income borrowers exceeded the corresponding ratios for the HMDA peer group. Penetration to both borrower segments was 66.67 percent as compared to coverage of 39.33 percent for the HMDA peer group. Kentland’s performance also exceeds the ratio of low- and moderate-income families above the poverty level within the AA, which was 33.93 percent.

**Geographic Distribution of Loans**

The AA does not include any low- or moderate-income census tracts. Therefore, we did not conduct an analysis regarding the geographic distribution of loans.

**Responses to Complaints**

Kentland has not received any complaints regarding its CRA performance since our previous evaluation.

**Fair Lending or Other Illegal Credit Practices Review**

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

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