



PUBLIC DISCLOSURE

May 12, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Union Federal Savings and Loan Association
Charter Number 700244

104 North Tremont Street
Kewanee, Illinois 61443-2232

Office of the Comptroller of the Currency

211 Fulton Street
Suite 604
Peoria, Illinois 61602

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 Outstanding

State Name: Illinois Rating: Outstanding

State Name: Wisconsin Rating: Outstanding

The major factors supporting the rating include:

- The distribution of borrowers reflects, given the demographics of the assessment areas, excellent penetration among individuals of different income levels in Illinois and Wisconsin assessment areas.
- The geographic distribution of loans reflects an excellent dispersion throughout the Illinois and Wisconsin assessment areas.
- The quarterly average loan-to-deposit ratio over the evaluation period is more than reasonable given size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in assessment areas.

Scope of Examination

This Performance Evaluation assesses Union Federal Savings and Loan Association's (Union Federal's or bank's) record of meeting the credit needs of the communities in which it operates. We evaluated Union Federal under the Small Bank performance criterion, which includes a lending test. The lending test evaluates Union Federal's record of helping to meet the credit needs of its assessment areas through its lending activities.

Union Federal conducts business in Illinois and Wisconsin with one assessment area (AA) in each state. The Illinois and Wisconsin AAs received full-scope reviews.

The evaluation covers the period from the date of the previous Community Reinvestment Act Performance Evaluation (CRA PE) of May 18, 2009 through May 12, 2014. The rating of the previous CRA PE was satisfactory.

Union Federal's primary products in both Illinois and Wisconsin are residential mortgage loans. We reviewed residential mortgage loans reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2012 through December 31, 2013. We based conclusions regarding the lending performance on HMDA loans originated or purchased utilizing 2010 U.S. Census data. We conducted data integrity reviews of HMDA data reported from January 1, 2012 through December 31, 2013, and found it to be reliable for use in this examination.

Description of Institution

Union Federal is a mutually owned, federally chartered savings and loan association headquartered in Kewanee, Illinois, with assets of \$110.7 million at December 31, 2013. Union Federal's Illinois branches are located in East Moline, Milan, Orion, and Viola. The Wisconsin branch is located in Madison. Union Federal closed its Moline, Illinois, branch on December 31, 2011.

Union Federal's offering of loan products include home construction, purchase, refinance, home equity, one-to-four family rentals, and multi-family loans. Union Federal also offers savings and checking deposit products.

Conclusions with Respect to Performance Criteria

The overall rating is a blend of the Illinois AA and Wisconsin AA ratings. The Wisconsin AA received the most weight in our assessment, as it accounted for 66.26 percent of residential mortgage loan originations, by dollar, from January 1, 2012 through December 31, 2013.

Loan-to-Deposit Ratio

Union Federal's loan-to-deposit (LTD) ratio is more than reasonable given the asset size, financial condition, and the credit needs of the AAs. Union Federal's quarterly LTD ratio averaged 90.98 percent over 19 quarters from June 30, 2009 to December 31, 2013, with a low of 79.97 percent and a high of 100.16 percent. Union Federal ranks second among 12 other similarly situated and sized financial institutions. Similarly situated and sized financial institutions have asset sizes ranging from a low of \$42.8 million to a high of \$301.8 million, and had average LTD ratios ranging between a low of 51.22 percent to a high of 92.29 percent, with an overall average of 70.77 percent over the same period.

Lending in Assessment Area

A majority of the loans originated by Union Federal, both by dollar and number, were to customers inside the AAs during the evaluation period.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	164	79.61	42	20.39	206	19,415	80.17	4,802	19.83	24,217

Source: Data reported under HMDA from January 1, 2012 through December 31, 2013; 2010 U.S. Census data.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 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.

State Rating

State of Illinois

CRA Rating for Illinois: Outstanding

- The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among individuals of different income levels.
- The geographic distribution of loans reflects an excellent dispersion in the AA.

Description of Assessment Area

The Illinois AA is part of the Davenport-Moline-Rock Island, IA-IL Metropolitan Statistical Area (MSA) and includes the Illinois counties of Henry, Mercer, and Rock Island. Using 2010 U.S. Census data, there are 13 census tracts (CTs) in Henry County with zero low-income CTs, 2 moderate-income CTs, 9 middle-income CTs, and 2 upper-income CTs. There are 4 CTs in Mercer County with all being middle-income CTs. There are 40 CTs in Rock Island County with 3 low-income CTs, 12 moderate-income CTs, 22 middle-income CTs, and 3 upper-income CTs. The Illinois AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The local economy continues to suffer from high unemployment. Unemployment in the Davenport-Moline-Rock Island MSA was 7.2 percent at March 31, 2013 and 7.1 percent at March 31, 2014. Rock Island County contains the largest population and largest job market in the Illinois AA and had an unemployment rate of 7.7 percent at March 31, 2014. The counties of Henry and Mercer are more rural and had unemployment rates of 7.5 percent and 9.9 percent at March 31, 2014, respectively. Families living below the poverty level in the AA totaled 8.17 percent. Major employment sectors in the AA include manufacturing, health services, and food processing.

Competition for financial services within the counties of Henry and Mercer are primarily from smaller community institutions that are state-chartered, national banks, or federal savings associations. Rock Island County has a greater level of competition for financial services as the market also includes larger community institutions, and branches of large financial institutions with a regional or national presence. Union Federal's deposit market share in the Davenport-Moline-Rock Island MSA was 1.26 percent while its deposit market share in Kewanee, Illinois, was 16.2 percent, at June 30, 2013.

We contacted a local economic development corporation. Kewanee, Illinois, is a small community that was once home to many manufacturing jobs; however, most manufacturers have left, leaving health services and retail services as the larger employment sectors. The contact mentioned that the local financial institutions in Kewanee, Illinois do a good job of participating in development projects. The contact mentioned that Kewanee, Illinois, has a large number of homes from the early 1900s that are in need of rehabilitation. The contact had a positive opinion of Union Federal,

noting that the bank is known for being active in the residential market and for providing residential mortgage loans to borrowers with older and lower value homes in Kewanee, Illinois.

Lending to Borrowers of Different Incomes

Lending to low-and moderate-income borrowers exceeds the peer HMDA-regulated financial institutions in the AA, by percent of loans. Performance under this criterion is excellent. Peer HMDA data was not available for 2013 comparison.

The distribution of loans reflects an excellent penetration among borrowers of different income levels, including low- and moderate-income borrowers.

Table 2: Borrower Distribution – HMDA Lending in Illinois AA						
Income Category	Percent Families by Income Category	Peer Data Lending % 2012	Union Federal			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Low	20.31	12.37	25	30.12	829	24.30
Moderate	19.33	20.69	23	27.71	822	24.09
Middle	23.34	23.70	19	22.89	708	20.75
Upper	37.02	30.89	16	19.28	1,053	30.86
Total	100.00	87.65	83	100.00	3,412	100.00

Source: Data reported under HMDA from January 1, 2012 through December 31, 2013 ; 2010 U.S. Census data.

Geographic Distribution of Loans

Performance in low-income CTs is poor for Union Federal as well as the peer. The poor performance in low-income CTs is mitigated as the low-income CTs are predominantly industrial areas with little opportunity for owner occupied lending. Lending in moderate-income CTs exceeds the peer HMDA-regulated financial institutions in the AA, by percent of loans. Performance under this criterion is excellent. Peer HMDA data was not available for 2013 comparison.

The geographic distribution of loans reflects an excellent dispersion in CTs of different income levels, including moderate-income CTs.

Table 3: Geographic Distribution – HMDA Lending in Illinois AA						
Income Category	Distribution of Owner Occupied Housing Units	Peer Data Lending % 2012	Union Federal			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Low	1.53	0.88	0	0.00	0	0.00
Moderate	16.95	16.28	20	21.74	837	21.68
Middle	70.34	69.22	70	76.09	2,868	74.30
Upper	11.19	13.62	2	2.17	155	4.02
Total	100.00	100.00	92	100.00	3,860	100.00

Source: Data reported under HMDA from January 1, 2012 through December 31, 2013; 2010 U.S. Census data.

Responses to Complaints

Union Federal did not receive any complaints during the evaluation period for the Illinois AA.

State Rating

State of Wisconsin

CRA Rating for Wisconsin: Outstanding

The major factors that support this rating include:

- The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among individuals of different income levels.
- The geographic distribution of loans reflects an excellent dispersion in the AA.

Description of Assessment Area

The Wisconsin AA is part of the Madison, WI MSA and includes the Wisconsin county of Dane. Using 2010 U.S. Census data, there are 100 CTs in Dane County with 9 low-income CTs, 15 moderate-income CTs, 50 middle-income CTs, 25 upper-income CTs, and 1 CT not listed as low, moderate, middle, or upper. The Wisconsin AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The local economy benefits from diversified and stable employment sectors. Unemployment in the Madison, WI MSA was 5.2 percent at March 31, 2013 and 4.7 percent at March 31, 2014. Unemployment in Dane County was 4.4 percent at March 31, 2014. Major employment sectors include government services, health services, and education services. Competition for financial services in Dane County is greater than Union Federal's primary market in Kewanee, Illinois. Financial services in Dane County are served by a variety of financial institutions from small community institutions to large banks with a national presence. Families living below the poverty level in the AA totaled 5.45 percent. Union Federal's deposit market share in Dane County was 0.02 percent, at June 30, 2013.

Union Federal's lending strategy in Wisconsin is concentrated in residential rental property lending.

Lending to Borrowers of Different Incomes

Lending to low- and moderate-income borrowers exceeds the peer HMDA-regulated financial institutions in the AA. Peer HMDA data was not available for 2013 comparison.

The distribution of loans reflects an excellent penetration among borrowers of different income levels, including low- and moderate-income borrowers.

Table 4: Borrower Distribution – HMDA Lending Wisconsin AA						
Income Category	Percent Families by Income Category	Peer Data Lending % 2012	Union Federal			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Low	17.60	8.82	5	19.23	572	13.75
Moderate	17.30	19.82	8	30.77	1,124	27.03
Middle	24.67	25.44	4	15.38	758	18.23
Upper	40.43	35.90	9	34.62	1,705	41.00
Total	100.00	89.98	26	100.00	4,159	100.00

Source: Data reported under HMDA from January 1, 2012 through December 31, 2013; 2010 U.S. Census data.

Geographic Distribution of Loans

Lending in low- and moderate-income CTs exceeds the peer HMDA-regulated financial institutions in the AA, by percent of loans. Performance under this criterion is excellent. Peer HMDA data was not available for 2013 comparison.

The geographic distribution of loans reflects an excellent dispersion in CTs of different income levels, including low- and moderate-income CTs.

Table 5: Geographic Distribution – HMDA Lending in Wisconsin AA						
Income Category	Distribution of Owner Occupied Housing Units	Peer Data Lending % 2012	Union Federal			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Low	1.74	1.44	5	6.94	1,086	6.98
Moderate	10.93	9.26	12	16.67	1,300	8.36
Middle	60.69	59.02	42	58.33	9,813	63.08
Upper	26.64	30.58	13	18.06	3,356	21.58
Total	100.00	100.00	72	100.00	15,555	100.00

Source: Data reported under HMDA from January 1, 2012 through December 31, 2013; 2010 U.S. Census data.

Responses to Complaints

Union Federal did not receive any complaints during the evaluation period for the Wisconsin AA.