



## **PUBLIC DISCLOSURE**

May 5, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Kentucky FS & LA  
Charter Number 700458

1050 Scott Street  
Covington, KY 41011

Office of the Comptroller of the Currency

Westlake Center  
4555 Lake Forest Drive, Suite 520  
Cincinnati, OH 45242-3760

**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.**

The major factors in support of this rating include:

- More than reasonable loan-to-deposit ratio;
- A majority of mortgage loans were originated within the assessment area (AA);
- Excellent penetration among borrowers of different incomes; and
- Reasonable geographic distribution of mortgage loans.

**SCOPE OF EXAMINATION**

Our office conducted a Community Reinvestment Act (CRA) evaluation to assess Kentucky Federal Savings and Loan Association's (Kentucky Federal or the thrift) record of meeting the credit needs of its community. We used the small savings association CRA evaluation procedures to perform our review. The evaluation period was from January 1, 2012 through December 31, 2013.

Our review focused on the thrift's primary lending product, residential real estate loans, as determined through discussions with management, a review of loan originations during the evaluation period, and the composition of the thrift's loan portfolio as of December 31, 2013. Our review focused on home purchase and home refinances given home improvement loans are not a primary product for the institution. The thrift did not make any home improvement loans in the AA in 2012. Additionally, there were no home improvement loans in our sample of 60 real estate loans, which the thrift originated in 2013.

We used the thrift's Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) for the year 2012; however, the thrift was not required to report their lending activity under the HMDA for 2013, so did not complete a LAR. We reviewed a sample of 60 HMDA reportable loans for 2013. We completed a HMDA data integrity examination to ensure the accuracy and reliability of the 2012 data.

**DESCRIPTION OF INSTITUTION**

Kentucky Federal is a federally chartered, mutual savings association located in Covington, Kentucky. The main office is located in Covington with two additional branches located in Boone and Grant counties. All of the thrift's offices are located in the Cincinnati/Northern Kentucky MSA. The thrift does not have any automated teller machines (ATMs), but does have a drive-thru facility at the main office and at their Boone County branch office. The institution offers standard products and services through its network of branches.

The thrift received a satisfactory CRA rating from the prior CRA evaluation, as of May 11, 2009. Currently, no legal or financial impediments exist that could restrict the thrift's ability to serve the community's credit needs. As of December 31, 2013, the thrift reported total assets of \$39 million and Tier one capital of \$3.1 million with net loans representing 59.6 percent of average total assets.

The thrift's primary lending product is loans secured by 1-4 family residential real estate. As of December 31, 2013, loans secured by 1-4 family residential real estate totaled \$22.0 million and represented 93.0 percent of net loans and leases. Table 1 details the loan portfolio composition of the thrift as of December 31, 2013.

<b>Table 1 - Loan Portfolio Mix</b>		
<b>As of December 31, 2013</b>		
<b>Loan Type</b>	<b>Dollar Volume (in 000's)</b>	<b>% of Gross Loans</b>
Residential Real Estate Loans	\$21,983	93.0%
Consumer-Installment Loans	\$380	1.6%
Commercial Loans	\$0	0.0%
Other Loans Secured by Real Estate	\$1,277	5.4%
<b>TOTAL GROSS LOANS</b>	<b>\$23,640</b>	<b>100.0%</b>

*Source: December 31, 2013 Consolidated Report of Condition and Income*

## **Description of Assessment Area (AA)**

Kentucky Federal's AA consists of Boone, Grant, and Kenton Counties in the northern and central parts of Kentucky, all being part of the Cincinnati, Ohio MSA. The AA is contiguous, meets the requirements of the CRA regulation, and does not arbitrarily exclude any low- or moderate-income areas. According to the 2010 U.S. Census, the AA is comprised of 67 census tracts (CTs), including four low-income, 19 moderate-income, 26 middle-income, and 17 upper-income CTs. Management selected the AA due to the majority of the thrift's lending and deposit activities originating in these three counties.

The AA's economy is diversified and not heavily dependent upon any one industry or employer. Largest employers in the area include the Internal Revenue Service, Kroger Company, Procter & Gamble, ABX Air Inc., Toyota Motor Engineering and Manufacturing, GE Aviation, Delta Airlines, Cincinnati/Northern Kentucky International Airport, as well as numerous service industry businesses; federal, state, and municipal governments; educational systems; and medical systems.

The economy in the AA has improved since the preceding CRA evaluation in May 2009. As of February 2014, the unemployment rates averaged 6.7 percent, 7.9 percent, and 7.3 percent for Boone, Grant, and Kenton Counties, respectively. These percentages decreased both from the February 2013 averages of 7.7 percent, 8.7 percent, and 8.1 percent, and from the March 2009 averages of 9.0 percent, 12.0 percent, and 9.8 percent as of the preceding evaluation. In addition, the AA's February 2014 unemployment rates compared favorably to the state of Kentucky's February 2014 average of 9.0 percent.

Competition with other financial institutions within the AA remains substantial. As of June 30, 2013, a total of 18 commercial banks and four savings associations, which included Kentucky Federal, maintained a total of 136 offices within the AA. This included several institutions that are multi-state, regional, or large institutions with branches outside the AA, such as JPMorgan Chase Bank, Bank of Kentucky, Fifth Third Bank, PNC Bank, Huntington National Bank, KeyBank, and U.S. Bank. As of June 30, 2013, all institutions held approximately \$4.7 billion in deposits within the AA. Kentucky Federal held approximately \$32 million or 0.7 percent of the AA’s total deposits.

Our community contact indicated there are good opportunities for local financial institutions to become involved with community development projects and programs in Northern Kentucky. More specifically, affordable housing was identified a primary credit need of the area. The contact mentioned a few local financial institutions, including Kentucky Federal, are heavily involved in community development in the Northern Kentucky area. A summary of demographic characteristics for the AA is as follows:

Demographic Information for Full Scope Area: Kentucky FSLA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	67	5.97%	28.36%	38.81%	25.37%	1.49%
Population by Geography	303,193	2.92%	26.37%	42.27%	28.44%	0.00%
Owner-Occupied Housing by Geography	80,913	1.76%	24.11%	44.11%	30.02%	0.00%
Business by Geography	24,397	1.50%	28.22%	38.48%	31.58%	0.22%
Farms by Geography	818	0.61%	27.02%	48.78%	23.59%	0.00%
Family Distribution by Income Level	77,655	19.36%	18.00%	22.13%	40.51%	0.00%
Distribution of Low and Moderate Income Families throughout AA Geographies	29,014	5.22%	40.96%	39.21%	14.61%	0.00%
Median Family Income		\$67,515	Median Housing Value	\$155,227		
HUD Adjusted Median Family Income for 2013		\$68,700	Median Year Built	1977		
Households Below Poverty Level		10%	Monthly Gross Rent	\$722		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2010 US Census and 2013 HUD updated MFI

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Kentucky FS & LA’s lending performance is outstanding.

### Loan-to-Deposit Ratio

The thrift’s loan-to-deposit ratio is more than reasonable. The thrift’s quarterly average loan-to-deposit (LTD) ratio over the past 20 quarters since the prior CRA examination (May 2009 thru December 2013) was 79.7 percent. When considering the thrift’s secondary market activity, we estimated the average LTD ratio would have been approximately 95 percent, which is more than reasonable when compared to similarly situated thrifts within its AA. For the same period, the average quarterly LTD ratio was 82.3 percent for other financial institutions in the thrift’s AA.

### Lending in Assessment Area

A majority of the thrift’s lending activity occurs inside its AA. The following table details the thrift’s AA lending activity by number and dollar volume.

<b>Table 2 – Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (in 000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	64	81%	15	19%	79	\$10,908	87%	\$1,619	13%	\$12,527
Home Refinance	26	67%	13	33%	39	\$3,651	73%	\$1,343	27%	\$4,994
<b>Totals</b>	<b>90</b>	<b>76%</b>	<b>28</b>	<b>24%</b>	<b>118</b>	<b>\$14,559</b>	<b>83%</b>	<b>\$2,962</b>	<b>17%</b>	<b>\$17,521</b>

Source: 2012 Kentucky FSLA’s HMDA data, and 2013 Kentucky FSLA’s RE Loan Sample.

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, Kentucky Federal’s lending performance to borrowers of low- and moderate-income reflects excellent penetration. The thrift originated 48.3 percent of its home purchase loans to low- and moderate-income families. Considering 70 percent of loan originations within our sample were home purchase loans, we placed the most emphasis on this loan type. Kentucky Federal’s home purchase originations were comparable to the peer level of 49.8 percent and compared favorably to the 37.4 percent composition of LMI families within the AA. Additionally, Kentucky Federal originated 27.3 percent of its refinancing loans to LMI families, which was also comparable to the peer level of 27.3 percent. Additional detail is included in the following table.

<b>Table 3 - 2012-13 Borrower Distribution of Residential Real Estate Loans in Kentucky FS&amp;LA AA</b>					
Borrower Income Level	% of Total Thrift Loans (by Number)		% of Loans by AA Lenders		% of AA Families
	Purchases	Refinances	Purchases	Refinances	
<b>Low</b>	8.33	9.09	18.58	7.54	19.36
<b>Moderate</b>	40.00	18.18	31.20	19.73	18.00
<b>Middle</b>	30.00	45.46	24.09	25.43	22.13
<b>Upper</b>	21.67	27.27	26.13	47.30	40.51
<b>Total LMI</b>	<b>48.33</b>	<b>27.27</b>	<b>49.78</b>	<b>27.27</b>	<b>37.36</b>

Source: 2010 U.S. Census Data, 2012 HMDA Peer Data, 2012 Kentucky FSLA’s HMDA data, and 2013 Kentucky FSLA’s RE Loan Sample.

In addition, 10 percent of families within the AA are below the poverty line, which effectively limits opportunities to lend in the AA. To breach this demographic limitation, Kentucky Federal actively participates in community development activities that help support low- and moderate-income (LMI) families within its AA. Most notably, the thrift is a member of HOPE for Kentucky, a consortium of lenders, which work together on participation loans to support LMI families. The program supports the entire state of Kentucky and has the potential to directly benefit the thrift’s AA. While loan volumes will vary, the two loans currently outstanding for the thrift totaled \$150 thousand each at origination.

## Geographic Distribution of Loans

Kentucky Federal’s geographic distribution of loans reflects reasonable dispersion of residential real estate loans in the AA’s low- and moderate-income census tracts. The geographic distribution analysis reflects lending throughout the AA with no conspicuous gaps. Kentucky Federal’s percentage of home purchase loans is higher than the peer average in the low-income CTs, but lower than the peer average in the moderate-income CTs. The institution did not originate any refinance loans in the low-income CTs. However, the thrift’s level of refinances is higher in the moderate-income CTs compared to the peer average.

<b>Table 4 - 2012 - 2013 Geographic Distribution of Residential Real Estate Loans in Kentucky FSLA's AA</b>					
<b>Census Tract Income Level</b>	<b>% of Total Thrift Loans (by Number)</b>		<b>% of Loans by AA Lenders</b>		<b>% of AA Owner Occupied Housing</b>
	<b>Purchases</b>	<b>Refinances</b>	<b>Purchases</b>	<b>Refinances</b>	
<b>Low</b>	1.6	0.0	0.9	0.6	1.8
<b>Moderate</b>	12.5	19.2	18.0	13.7	24.1
<b>Middle</b>	51.5	46.2	48.6	44.4	44.1
<b>Upper</b>	34.4	34.6	32.5	41.3	30.0

*Source: 2010 U.S. Census Data, 2012 HMDA Peer Data, 2012 Kentucky FSLA's HMDA data, and 2013 Kentucky FSLA's RE Loan Sample.*

## Responses to Complaints

During the review period, Kentucky Federal received no known written complaints relating to its performance in helping to meet the credit needs of its AAs.

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 C.F.R. 25.28(c), in determining a national thrift’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the thrift, or in any AA by an affiliate whose loans have been considered as part of the thrift’s lending performance.

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