



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

May 5, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Perpetual FSB
Charter Number 702644

120 N. Main Street, Urbana, OH 43078-1602

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 Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- Perpetual Federal Savings Bank's (Perpetual or the thrift) loan-to-deposit (LTD) ratio is more than reasonable when compared to similarly-situated financial institutions.
- Lending within the thrift's assessment area (AA) is satisfactory.
- The thrift's lending to borrowers of different income levels reflects reasonable penetration.
- Perpetual's performance in lending to geographies of different income levels exhibits excellent dispersion.
- The thrift's responsiveness to community development (CD) needs through lending, investments, and services is adequate and supports satisfactory performance.

Scope of Examination

We conducted a full scope Community Reinvestment Act (CRA) evaluation to assess the thrift's record of meeting the credit needs of its community, including low- and moderate-income areas. We used small savings association evaluation procedures to evaluate the thrift's performance under the Lending Test. The Lending Test includes loans originated from January 1, 2012 to December 31, 2013, the lending evaluation period. Perpetual is not located in a metropolitan statistical area (MSA) and is therefore not required to maintain data under the Home Mortgage Disclosure Act (HMDA). However, Perpetual maintains a HMDA loan application register (LAR). A data integrity examination of the thrift's home mortgage loans was performed, and we found the data accurate and reliable. The thrift's performance in residential real estate lending (one- to four-family home loans) is considered foremost in this CRA evaluation, as this is the thrift's primary lending product; however, home improvement loans are not considered a primary product for Perpetual. The OCC used the 2010 U.S. Census data to analyze performance. CD loans, investments, and services from May 28, 2010 to May 5, 2014 (CD evaluation period) were included in the evaluation.

Description of Institution

Perpetual, a federally chartered stock thrift, operates its sole branch in downtown Urbana, Ohio. The banking office includes a drive-thru facility. Perpetual does not offer internet banking or automated teller machines. The thrift's only office is located in one of the two moderate-income census tracts within Champaign County. It maintains a diverse loan portfolio and reported total assets of \$346.7 million at March 31, 2014.

Perpetual's principal line of business is mortgage lending. Additionally, Perpetual serves the community with commercial, consumer, farm, and other loan products. The thrift's business strategy also includes originating multifamily and commercial real estate loans through a broker in the Columbus, Ohio market area, outside the thrift's AA. The thrift offers standard savings and deposit products.

As of March 31, 2014, Perpetual reported Tier 1 Capital of \$59.4 million or 17 percent of total assets. For the same time period, the thrift's net loan portfolio totaled \$289 million, with net loans representing 83 percent of total assets. Table 1 below reflects the thrift's lending activity during the evaluation period.

Table 1 – Loan Mix				
Loan Type	% by Number of Loans Originated/Purchased during evaluation period		% by Dollars of Loans Originated/Purchased during evaluation period (in 000s)	
	# of Loans	%	\$000s	%
Residential Real Estate 1-4 Family (Home Loans/HMDA)	460	64.4%	78,675	48.2%
Farm	8	1.1%	4,247	2.6%
Commercial Real Estate	45	6.3%	29,006	17.8%
Multi-Family	63	8.8%	42,447	26.0%
Commercial	6	0.9%	1,504	0.9%
Consumer	132	18.5%	7,314	4.5%
Total	714	100.0%	163,193	100.0%

Source: Perpetual's internal record of loans originated from January 1, 2012 through December 31, 2013.

Presently, there are no financial or legal impediments that affect Perpetual's ability to help meet the credit needs of Champaign County. At its last CRA evaluation on May 28, 2010, Perpetual received a "Satisfactory" rating.

Description of Assessment Area

Perpetual's AA consists of Champaign County in its entirety. The Champaign County AA meets the requirements of the regulation and does not arbitrarily exclude any low- and moderate-income areas.

The Champaign County AA includes ten census tracts (CTs), comprised of two moderate-income CTs (20 percent), two middle-income CTs (20 percent), and six upper-income CTs (60 percent) CTs. Per the 2010 U.S. Census data, the population of the AA is 40,097 with 21 percent living in moderate-income CTs, 26 percent living in middle-income CTs, and 53 percent living in upper-income CTs. Sixty-eight percent of the housing units in the AA are owner occupied, with 18 percent of the owner occupied units located in moderate-income CTs, 25 percent in middle-income CTs, and 57 percent located in upper-income CTs. Twelve percent of households in the AA live below the poverty level, 31 percent receive social security benefits, and 3 percent receive public assistance. The median house value is \$125,745. The median age of housing is 48 years. The weighted average monthly gross rent is \$613.

According to the 2010 U.S. Census Data, the median family income for the State of Ohio (non-MSA AAs) is \$52,111. The HUD (Department of Housing and Urban Development) estimate of the median family income for the State of Ohio during the evaluation period was \$53,000. Approximately 16 percent of families in the AA are low-income, 16 percent are moderate-income, 22 percent are middle-income, and 46 percent of the families are upper-income.

According to the Ohio Labor Market Information as of March 2014, the “not seasonally adjusted” unemployment rate for the State of Ohio was 6.2 percent compared to the national rate of 6.9 percent. The “not seasonally adjusted” unemployment rate for Champaign County was 5.2 percent, lower than both the state and national unemployment levels.

Since the previous CRA evaluation, the local economy has improved. Champaign County’s economy includes a mixture of service, retail, manufacturing, and agricultural businesses. Champaign County is the home to at least a dozen employers with more than 200 employees and a division of a Fortune 100 company. Major employers include Community Mercy Health Partners, Urbana University, Honeywell International Inc., Rittal Corporation, and the local school systems.

The competition in the AA is moderate with a vast array of services offered. There are seven financial institutions with 15 offices in Champaign County, in addition to the credit unions and several mortgage and broker companies. As of June 30, 2013, Perpetual had approximately 43 percent of the total deposit market share in Champaign County and ranked first out of the seven financial institutions. The source of the deposit market share information is the June 30, 2013, Deposit Market Share Report issued by the Federal Deposit Insurance Corporation (FDIC).

Community contacts indicated the economy is improving. The credit needs of the AA include affordable housing. According to the contacts, local financial institutions are meeting those needs. In addition, the CD needs and opportunities are being adequately served by the local financial institutions.

Conclusions with Respect to Performance Tests

LENDING TEST

Perpetual’s lending performance is satisfactory.

Loan-to-Deposit Ratio

The thrift’s LTD ratio is more than reasonable given their size, financial condition, and AA credit needs. Perpetual’s quarterly average LTD ratio for the 15 quarters since the prior CRA evaluation (June 2010 to December 2013) of 105.51 percent is more than reasonable when compared to similarly-situated financial institutions. Since the last CRA evaluation, Perpetual’s LTD ratio ranged from its lowest of 98.22 percent as of June 30, 2013, to its highest of 121.62 percent on June 30, 2010. The quarterly LTD ratio for similarly-situated financial institutions located within the same area was approximately 88.39 percent, during the same timeframe.

Lending in Assessment Area

A slight majority of the loans Perpetual originated in the AA are located outside the AA; however, overall lending inside the AA is satisfactory as the thrift is meeting the credit needs of its AA. The majority of loans outside the AA are in the nearby Columbus Metropolitan Statistical Area (MSA). Management stated there is strong competition for loans in Champaign County; therefore, in addition to lending in their AA, the thrift has targeted lending in the Columbus MSA. Table 2 details the thrift’s lending activity of 1-4 family residential real estate loans during the evaluation period by number of loans and dollar volume.

Table 2 – Lending in the Champaign County AA										
Loan Type	Number of Loans					Dollars of Loans (000's omitted)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate 1-4 Family	226	49.9%	227	50.1%	453	26,253	34.7%	49,426	65.3%	75,679

Source: Perpetual’s internal report of HMDA data from January 1, 2012 to December 31, 2013.

Lending to Borrowers of Different Incomes

Lending to borrowers of different income levels in the Champaign County AA reflects reasonable penetration. From 2012-2013, Perpetual’s refinance loans totaled 67.3 percent of home mortgage originations compared to 32.7 percent for home purchase originations. Also, 12.2 percent of the households in the Champaign County AA were living below the poverty level. This contributes to the lower penetration to low-income borrowers as these households may experience difficulty meeting the credit underwriting standards for home mortgage loans or not have the means to refinance prior mortgages.

Table 3 2012 - 2013 Borrower Distribution of Residential Real Estate Loans in the Champaign County AA					
Borrower Income Level	% Total Thrift Loans		% of Loans by AA Lenders		% of AA Families
Loan Type	Purchases	Refinances	Purchases	Refinances	
Low	8.33	6.02	9.52	5.83	15.94
Moderate	20.00	11.45	26.87	14.57	16.12
Middle	15.00	20.48	27.89	32.61	21.88
Upper	56.67	62.05	35.72	46.99	46.06

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

Geographic Distribution of Loans

Perpetual’s geographic distribution of loans within the Champaign County AA reflects excellent dispersion. Our analysis reflected lending in most tracts. Geographic distribution compared to the level of loans made by AA lenders and compared to the level of owner occupied housing in the moderate-income CTs is excellent. Perpetual was able to originate a significant volume of purchase and refinance loans in the moderate income CTs, where 2010 U.S. Census data indicated 36.45 percent of residential units were tenant occupied.

Table 4 2012-2013 Geographic Distribution of Residential Real Estate Loans in the Champaign County AA					
Census Tract Income Level	% Total Thrift Loans		% of Loans by AA Lenders		% of AA Owner Occupied Housing
	Purchases	Refinances	Purchases	Refinances	
Moderate	33.33	21.08	17.06	13.81	17.50
Middle	15.00	12.05	29.71	26.37	25.07
Upper	51.67	66.87	53.23	59.82	57.43

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

Responses to Complaints

Perpetual has not received any complaints about its performance in helping to meet the AA’s credit needs during the evaluation period.

COMMUNITY DEVELOPMENT TEST

Perpetual’s CD performance demonstrates adequate responsiveness to CD needs in the Champaign County AA through CD lending, qualified investments, and CD services, which is reflective of satisfactory performance.

Number and Amount of Community Development Loans

Perpetual’s CD lending demonstrates adequate responsiveness to the AA’s needs given its resources and capacities. The thrift originated five qualifying loans totaling over \$800 thousand during the evaluation period. The bank originated CD loans to various non-profit entities. Examples of these CD loans are listed below.

- The thrift originated three loans totaling \$91 thousand, which support affordable housing (Habitat for Humanity) to low- and moderate-income families.
- Perpetual originated one loan for \$400 thousand to two local non-profit organizations to refurbish a property, which will assist in stabilizing a moderate-income CT.
- Another loan was originated for \$340 thousand to a local non-profit organization that provides services to low- and moderate-income individuals with disabilities.

Number and Amount of Qualified Investments

Perpetual's qualified investment activity is adequate. Qualified investments consist of donations to various non-profit organizations in the AA, all made during the evaluation period. The thrift made the majority of their investments in the Champaign County AA.

During the evaluation period, Perpetual made 29 donations to 14 different organizations in the AA totaling \$18,025 and a donation totaling \$8 thousand outside the AA. The distribution is across numerous organizations serving the needs of low- and moderate-income clients and geographies across the AA, which reflects management's desire to maximize impact. Examples of the donations are listed below.

- Perpetual pledged \$10 thousand each to two separate building funds for facilities that provide medical services to low- and moderate-income individuals. The pledged amounts included one facility that is located in the Champaign County AA and the other facility is outside the AA (located in Clark County which is adjacent to Champaign County). Of the \$20 thousand pledged, Perpetual contributed \$4.5 thousand to the fund located in Champaign County and \$8 thousand to the other fund during the evaluation period. This \$8 thousand was outside the AA; however, the thrift is meeting the CD needs of the AA.
- The thrift donated over \$4 thousand to United Way, which is an organization providing community services to low- and moderate-income individuals.
- Perpetual donated funds to two food pantries: Caring Kitchen and Second Harvest Food Bank. In particular, Perpetual made an \$800 donation to the Caring Kitchen's Backpack Program, which is associated with Urbana City Schools.

Extent to Which the Bank Provides Community Development Services

CD services provided by the thrift represent adequate responsiveness to CD needs. Thrift personnel provide technical and financial expertise throughout the Champaign County AA. During the evaluation period, three bank officers provided CD qualifying services to seven community organizations. These organizations provide essential services to low- and moderate-income individuals as well as services to organizations dedicated to promoting affordable housing and community revitalization. Examples of these CD services are as follows:

- Urbana Rotary Manor – An employee serves as a Board member of this organization, which provides affordable housing to low- and moderate-income individuals.
- Community Mercy Foundation – An employee served as a Board member during the evaluation period. This organization provides funds to assist low- and moderate-income individuals.
- YMCA of Champaign County – An employee serves on the membership committee, which provides scholarships to low- and moderate-income individuals.

Responsiveness to Community Development Needs

Perpetual demonstrates adequate responsiveness to the CD needs of the communities it serves through CD lending, investments, and services.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 195.28(c) in determining a Federal Savings Association's (FSA's) 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.