PUBLIC DISCLOSURE

July 7, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Bank
110 W. Vine St.
Lexington, KY 40507-1618
Docket #: 03719

Office of Thrift Supervision
Southeast Region
1475 Peachtree St, NE
Atlanta, GA. 30309

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.**

Office of Thrift Supervision
Department of the Treasury *Southeast Region*

Atlanta Regional Office • Telephone: (404) 888-0771 • Fax: 404-892-8128
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October 30, 2008

Board of Directors
First Federal Bank
110 West Vine Street
Lexington, Kentucky 40507-1618

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of July 7, 2008. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Valorie Owen
Compliance Review Examiner V

Enclosure

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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First Federal Bank. The Office of Thrift Supervision (OTS) prepared the evaluation as of July 7, 2008. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: Outstanding.

First Federal Bank (FFB or institution) made the majority of its reportable mortgage loans within its four county assessment area (AA). Its loan-to-deposit ratio was substantially higher during the review period than that of its peer group[1]. FFB continues to have strong loan production contrasted to its asset size. Loan originations within the combined low- and moderate-income[2] census tracts (CTs) of the AA exceeded those of its peer group. In addition, FFB originated a greater percentage of reportable loans to borrowers of low- and moderate-incomes than other reporting lenders within its AA.

Scope of Examination

Examiners reviewed FFB's required Regulation C/Home Mortgage Disclosure Act (HMDA) submissions for the years 2004 through 2007 as part of this analysis. A HMDA submission includes certain geographic and income information for each loan application secured by a borrower's principal residence. This information is compared to other HMDA reporting institutions within the AA that originated loans between 2004 and 2006, which is the last year the HMDA peer information is available.

Description of Institution

FFB is a federally charted, mutual savings bank with $137.2 million in assets as of June 30, 2008. Its main office is located in downtown Lexington, KY. FFB has four branch offices in Lexington and a fifth branch office in nearby Georgetown, KY. All branches are full service facilities with deposit and loan application capabilities. Each branch office, including the main office is equipped with an automated teller machine. FFB opened its fourth Lexington branch office at 2452 Sir Barton Way, on June 3, 2008. There are no legal or financial impediments to FFB's ability to meet the credit needs of its AA.

Like many community institutions, FFB's primary business strategy is originating residential mortgage loans. FFB offers adjustable rate mortgage loans (ARM loans), fixed rate mortgage loans,

[1] FFB's peer group includes other SE Region OTS thrifts with assets between $100 million and $300 million.
[2] Census tracts, similar to individuals and families, can be placed in four categories based on income level. A low-income census tract within the Lexington-Fayette, KY MSA has a median family income (MFI) of less than 50 percent of the average MFI of the Lexington MSA. A moderate-income census tract has 50 percent to less than 80 percent of the MFI; a middle-income census tract has 80 percent to 120 percent of the MFI, and an upper-income census tract has a MFI level of 120 percent or more of the MFI. The MFI for the Lexington MSA was $60,000 in 2004, $60,000 for 2005, $61,800 in 2006, and $59,800 in 2007.

Institution (continued)

FHA and VA loans, Rural Housing Service (RHS) loans, Kentucky Housing Corporation (KHC) loans, investment property loans, construction loans, and construction/permanent loans. It typically sells its fixed rate loans to the Federal Home Loan Mortgage Corporation and other mortgage clearing houses. ARM loans are kept in portfolio. FFB also offers second mortgage loans, and consumer loans, including automobile loans, home equity loans, and personal loans. Deposit accounts offered at FFB include savings, checking, business checking, and certificates of deposit. FFB offers Individual Retirement Accounts (IRA), including the traditional IRA and the Roth IRA.

FFB also bought a mortgage loan origination company in May 2007 and it now works out of the new branch location as a FFB entity. FFB also offers a customer help line and a transactional website, www.firstfederalbankky.com. It is a member institution of an ATM network which allows its ATM/debit card holders access to withdraw cash in various parts of the AA without charging a fee.

The most recent UTPR indicates that 84.0 percent of FFB's total assets are tied to mortgage lending. This ratio is favorable to the same peer group category by 14.5 percent. FFB has traditionally had a very high ratio of net mortgage loans. Within net mortgage lending, FFB is also ahead of peer in several other mortgage categories. It has 6.9 percent of its assets tied to construction lending whereas the peer's ratio in this category is 1.5 percent. It is also significantly ahead of peer in loans on nonresidential mortgage lending. Lending in this category accounts for 23.1 percent of FFB's assets compared to the peer group that has 6.4 percent of assets in this category. FFB is also significantly ahead of peer in lending on multi-family dwellings (five or more units) and loans on land. It was somewhat behind peer in lending secured by one-to-four family dwellings as a percentage of assets, 44.3 percent compared to the peer percentage of 54.0.

There are many financial institutions in Lexington that offer a wide variety of mortgage loan products. Consequently, FFB's AA is a very competitive market. Many institutions have branch offices and main offices in the AA. Institutions directly competing with FFB have anywhere from one to 17 branches within the AA. These include multi-billion dollar national banks, small, state-chartered banks, and thrifts. FFB's four locations have a combined $77.5 million in deposits, or 1.12 percent of the deposit market share (as of June 30, 2007). Only one of FFB's directly comparable AA competitors has fewer than four locations, and it has less than 0.84 percent of the market share of deposits.

Competition encourages all institutions to engage in flexile lending programs. To that end, FFB offers a special program for first time homebuyers. This program, the "First Home Program," offers liberal qualifications, such as higher debt-to-income and loan-to-value ratios. The program involves conventional fixed rate loans limited to residents within FFB's AA. It is a popular program, as there are currently seven active mortgage loans originated through the program. These loans total $602,508 thousand as of June 30, 2008.

Institution (continued)

FFB also partners with the Kentucky Housing Corporation (KHC) to find affordable housing for Kentucky residents. A FFB loan originator, located at the Georgetown office, was recognized by KHC as a top lending partner in affordable mortgage loans for 2007. This loan officer closed more than 30 KHC loans during 2007. FFB earned the KHC's Bronze Award and was recognized as a top lender for the number of KHC loans it originated in 2007. In addition to its 2007 performance, FFB partnered with KHC during the course of the CRA review period and originated more than $12.3 million mortgage loans. These fixed rate loans were sold to Fannie Mae or Freddie Mac. This partnership was beneficial to the AA during the review period.

FFB is an active member of the Resources, Education, and Assistance for Community Housing (REACH). This organization helps lower income individuals and families to obtain home ownership. REACH, with the help of local financial institutions, can bridge the down payment gap through forgivable loans and low or no cost closings. FFB's president is one of 16 REACH Board members. A FFB loan officer also serves on a REACH support committee. This FFB loan officer also serves as a board member for the Housing Management Services Inc, an organization that works toward providing housing for low- and moderate-income persons. The institution participates in the following programs to make more funds available for housing:

- Rural Housing Services
- FHA
- REACH (Resources, Education & Assistance for Community Housing)
- First Federal's "First Home" mortgage program
- Federal Home Loan Bank's Welcome Home Program
- Federal Home Loan Bank's Affordable Housing Program

Additionally, FFB seeks out funding from the Federal Home Loan Bank of Cincinnati (FHLB) for community projects. FHLB makes grants available to its communities through the "American Dream Homeownership Challenge". These funds can be used to facilitate lending to low- and moderate-income borrowers through FHLB's Affordable Housing Program or its Community Investment Program. FFB recently was awarded a $125,000 Grant for the HMS Boston Revitalization Project 2008 sponsored by Housing Management Services.

Description of First Federal Bank's Assessment Area

FFB's AA includes the contiguous counties of Fayette, Scott, Jessamine, and Woodford in Central Kentucky. These counties are within the Lexington-Fayette, KY MSA 30460. The MSA also includes Bourbon and Clark counties, but those are not part of the FFB AA. FFB's AA is

Institution (continued)

approximately 85 miles south of Cincinnati, OH and 80 miles west of Louisville, in Kentucky's virtual center.

There are four FFB locations, including the main office, in Fayette County and one FFB location in Scott County. Georgetown (Scott) and Lexington (Fayette) are the two most populated cities within the AA. Two major highways, I-64 (East/West) and I-75 (North/South), intersect in Fayette County. FFB does not have a branch office in either Woodford or Jessamine counties, but those counties are included in the AA at management's discretion.

The AA is a growing region based on population statistics from the 1990 and 2000 US Census[3]. The AA population increased by over 56,000 people in that 10-year period. Lexington (incorporated as a city in 1831 and the county seat) is the largest city within Fayette County and by far the largest within the AA. Most of the AA's population (73.2 percent) resides within Fayette County. Fayette County is the "hub county" of the AA.

FFB's AA currently consists of 81 CTs. One of those CTs, in downtown Lexington (Fayette County), is unpopulated so it will not be included in this analysis. For purposes of this review, the AA has 80 CTs. Fayette County has the most CTs (60) within the AA (75.0 percent of all CTs). Jessamine County has eight (10.0 percent) CTs, Woodford County has five (6.3 percent) CTs, and Scott County has seven (8.8 percent) CTs. There are nine low-income CTs within the AA, all in Fayette County. There are 16 moderate-income CTs within the AA, three in Jessamine, 11 in Fayette, and two in Scott. Woodford County has three of the 34 middle-income CTs, while Fayette has 24, Jessamine has four, and Scott has three. There are 21 upper-income CTs within the AA and the most are in Fayette (16), followed by Scott (two), Woodford (two), and Jessamine (one).

The following table shows demographic details and compares the number and percentage of owner-occupied housing units (OOHU) per census tract. All applicable CTs in the AA are included in the table. There were 153,164 occupied housing units in the AA and 84,111 of those are owner-occupied.

FFB AA Census Tract and OOHU Table				
CT Type	**Number of CT's**	**% of CT's**	**Number of OOHU's**	**% of OOHU's**
Low-Income	9	11.3	2,683	3.2
Moderate-Income	16	20.0	13,651	16.2
Middle-Income	34	42.5	36,849	43.8
Upper-Income	21	26.2	30,928	36.8
TOTAL	**80**	**100.0**	**84,111**	**100.0**

[3] All census information referenced in this report, unless otherwise noted, is from the 2000 US Census.

Institution (continued)

The table below describes the families in the AA by their income level. Similar to a CT's income category, a person's or a family's income category is based on the MFI of the county of their residence. The MFI is also based, in part, on county location, inside or outside a MSA.

Family Data for FAYETTE, JESSAMINE, WOODFORD, and SCOTT COUNTIES		
Family Type	**Number of Families**	**% of Families**
Low-Income	18,107	20.1
Moderate-Income	15,610	17.3
Middle-Income	19,377	21.5
Upper-Income	37,036	41.1
TOTAL	**90,130**	**100.0**

The economic engine of the AA is very diverse. Scott County is home to a major car manufacturer with approximately 7,000 employees. Other car related industries have developed in the area and those account for another approximate 1,700 jobs, according to a 2007 community profile of Scott County. Fayette County employment is stretched among many different industries, including agriculture and manufacturing. Each county in the AA, except Fayette, has a significant number of employees commuting out of the county to work, according to US Department of Commerce 2000 information. Most of those commuters are going to Fayette County to work. The unemployment rate in each of the four counties was below 5.0 percent in June 2008, which was better than the average Kentucky unemployment rate of 6.3 percent.

Conclusions with Respect to Performance Tests

Loan-To-Deposit Ratio

Examiners performed an analysis of FFB's loan-to-deposit (LTD) ratio for this CRA evaluation. The LTD ratio is an indicator of FFB's capacity and willingness to lend within the same AA as where it takes in deposits. The overall ratio was calculated based on the 16 quarter-end LTD ratios for March 2004 through December 2007.

The LTD ratio averaged 125.1 percent for those 16 quarters. The low quarter-end LTD ratio for that period was 107.5 in September 2004 and the high quarter-end LTD ratio was 146.0 in September 2007. FFB began accepting brokered deposits during the last few quarters of the CRA review period. It also continued its relationship with the CDARS program, which permits customers to spread high-dollar deposits into certificates of deposit among several institutions without sacrificing FDIC deposit account insurance.

Institution (continued)

FFB continues to have strong originations from its mortgage lending program. Its total new originations, as a percentage of assets, were very high in comparison to peer. It ranked in the 91st percentile of its peer group for 2006 and in the 97th percentile in 2007.

FFB also continues to sell its fixed rate mortgages, including those originated in partnership with KHC. The LTD ratio was over 119 percent at the previous CRA examination. FFB's level of loan sales totaled $5.1 million in 2004, $10.8 million in 2005, $7.3 million in 2006 and $30.4 million in 2007.

In contrast, the peer group's basic LTD ratio for the same 16 quarters was 94.8. FFB is effectively lending out the dollars it takes in on deposit. Its performance in this category is superior to the peer group and exceeds the standard for a satisfactory performance.

Lending in Assessment Area

FFB's lending patterns were reviewed to determine the level of lending inside and outside its AA. This review focused on HMDA reportable loans from 2004 through 2007.

FFB originated 86.8 percent of its mortgage loans within its AA. This is an acceptable percentage. However, it is a slight decrease from the AA ratio noted at the previous examination.

The institution maintained three loan production offices since the previous exam. One is located in Cynthiana, KY (Harrison County) and another in Danville, KY (Boyle County). FFB also briefly operated a loan production office in Stanton, KY (Powell County) but it is now closed. Harrison County is contiguous with Scott County. Boyle County is not contiguous with any county in the AA.

The AA is also very competitive for mortgage loans. There were 448 HMDA reporting lenders in the AA in 2004, 456 in 2005, and 243 in 2006. FFB ranked 49th, 54th, and 39th in originated loans for those respective years. Only the top 20 lenders in those years had a market share greater than one percent of all reportable loans originated.

Performance in this category exceeds the standard for satisfactory performance.

Geographic Distribution of Loans

Examiners also reviewed mortgage loans originated by FFB to determine its lending patterns from 2004 through 2007. This review is intended to illuminate lending patterns by CTs and to ensure that all CTs in the AA are serviced, within reason, by FFB. An institution's penetration of the low- and moderate-income CTs within its AA is given particular attention.

Institution (continued)

The following table details the geographic distribution of HMDA loans by CT. Peer data is based on loans granted by HMDA reporting bank and thrift institutions from 2004 through 2006. The table compares FFB's performance from 2004 through 2007 to that of HMDA reporting banks and thrifts lending in the AA in contrast to the percentage of owner occupied housing units (OOHUs) in the AA. This table includes loans originated within the AA only.

GEOGRAPHIC DISTRIBUTION of HMDA REPORTABLE LOANS				
CT Category	*FFB # of Loans*	*FFB % of Loans*	*Peer Group %*	*OOHU %*
Low-Income	9	1.7	3.5	3.2
Moderate-Income	89	16.7	14.4	16.2
Middle-Income	193	36.2	39.2	43.8
Upper-Income	242	45.4	42.9	36.8
TOTAL	**533**	**100.0**	**100.0**	**100.0**

Low-income tracts had only 3.2 percent of the AA's owner-occupied residences. It is unreasonable to expect a high percentage of penetration in these tracts simply because there are few homeowners to seek out mortgage financing. Nevertheless, it is reasonable to expect a higher penetration of the low-income tracts based on the peer comparison. Peer lending in the low-income CTs is roughly twice the rate of FFB. FFB lending in the moderate-income tracts was relatively better. It was ahead of the percentage of OOHUs within that CT category and also ahead of the peer lending performance in those CTs.

In conclusion, FFB's penetration of low- moderate-income CTs is considered acceptable and meets the standards for a satisfactory performance.

Lending to Borrowers of Different Income Levels

Examiners also reviewed FFB's record of lending based on borrower income. The purpose of this review was to assess FFB's record of mortgage loan origination to borrowers of different income levels. Particular emphasis is placed on an institution's record of lending to low- and moderate-income borrowers.

The following table depicts the borrower income categories for mortgage loans originated by FFB between 2004 and 2007. All loans were granted within the AA. This table includes the number and percentage of loans granted within each income category. It compares the percentages of these originated loans to the aggregate 2004 through 2006 performance of HMDA reporting bank and thrifts within the AA. The table also compares performance to the percentage of families from this

Institution (continued)

AA within each income category. Only loans with identified borrower income levels were included in the table.

BORROWER INCOME – FFB HMDA Reportable Mortgage Loans 2004 – 2007				
Borrower Income	***# of FFB Loans***	***FFB % of Loans***	***Peer Group %***	***Family Distribution %***
Low-Income	60	11.5	8.1	20.1
Moderate-Income	149	28.5	21.4	17.3
Middle-Income	127	24.3	26.3	21.5
Upper-Income	187	35.7	44.1	41.1
TOTAL	**523**	**100.0**	**100.0**	**100.0**

FFB was somewhat ahead of peer in lending to both the low- and moderate-income borrowers. Viewed separately, FFB was more than slightly ahead of peer in originations to low-income borrowers but significantly ahead of peer in lending to borrowers in the moderate-income category. Neither peer nor FFB met the family distribution percentage in the low-income category. However, both FFB and peer were significantly ahead of the family distribution percentage in the moderate-income category.

If both the low-income and moderate-income performance were viewed together, FFB granted 40.0 percent of its HMDA reportable loans to low- and moderate-income borrowers. This penetration is 127.8 percent of the LMI peer group ratio (31.3 percent). This is a better showing than its performance relative to FFB's geographic distribution of loans in the LMI census tracts. This performance is enhanced by FFB's participation with KHC and other partnership lending programs designed to find affordable housing to low- and moderate-income borrowers.

FFB's performance in originating loans to low- moderate-income borrowers is outstanding and exceeds the standards for a satisfactory performance.

Fair Lending or Other Illegal Credit Practices Review

Examiners found no violations of federal fair lending regulations at this examination. FFB does not engage in any illegal credit practices. Neither OTS nor FFB received any complaints during the review period regarding the institution's CRA performance.

CRA Rating Definitions

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. “Outstanding record of meeting community credit needs.”
2. “Satisfactory record of meeting community credit needs.”
3. “Needs to improve record of meeting community credit needs.”
4. “Substantial noncompliance in meeting community credit needs.”

OTS judges an institution’s performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution’s product offerings and business strategy; the institution’s capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution’s performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution’s overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution’s performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.