



PUBLIC DISCLOSURE

August 11, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

LifeStore Bank
Charter Number 706555

21 East Ashe Street
West Jefferson, NC 28694

Office of the Comptroller of the Currency

212 South Tryon Street
Suite 700
Charlotte, NC 28281

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 that support this rating include:

- The bank's loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs;
- A substantial majority of the bank's loans are made within its assessment area (AA);
- The distribution of loans to borrowers and businesses of different income levels reflects reasonable penetration;
- The geographic distribution of loans reflects reasonable dispersion throughout the AA; and
- No complaints were received during the evaluation period.

SCOPE OF EXAMINATION

We performed a full-scope evaluation of LifeStore Bank's (LifeStore) performance using small bank Community Reinvestment Act (CRA) examination procedures. Based upon the bank's business strategy and the loans originated during the evaluation period, we determined that home purchase loans and commercial loans are the bank's primary loan products. LifeStore is not subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). Therefore, we reviewed a sample of 56 home purchase loans and 20 commercial loans that were originated during the evaluation period to determine the bank's lending performance.

The evaluation period for home purchase loans and commercial loans is January 1, 2012 through June 30, 2014. The evaluation period for the loan-to-deposit ratio is September 1, 2009 through March 31, 2014.

DESCRIPTION OF INSTITUTION

LifeStore is a federally chartered, stock savings association headquartered in West Jefferson, North Carolina (NC). LifeStore is a wholly owned subsidiary of LifeStore Financial Group, which is also headquartered in West Jefferson, NC. The bank operates six branches and two loan production offices. The main office and six branches are located in the middle-income census tracts of Ashe and Watauga counties. Five branches are located in the cities of Jefferson, Warrentsville, and West Jefferson of Ashe County and one branch is located in the city of Boone within the county of Watauga. The bank's Sparta branch located in Alleghany County was closed during the evaluation period.

LifeStore had approximately \$254 million in total assets as of June 30, 2014. The bank's tier-one and risk-based capital totaled \$25.3 million and \$27.6 million, respectively. As of June 30, 2014, 36 percent of the LifeStore's total assets consisted of mortgage loans secured by permanent mortgages on single-family residences while non-residential mortgage loans represented the second largest category of loans totaling 14.9 percent of total assets. Investments represented 17.4 percent of total assets.

LifeStore offers conventional residential mortgage loans for the purchase, refinance, and construction of single-family homes. LifeStore also offers various types of commercial loans, consumer loans, and lines of credit. The table below reflects the major components of LifeStore's balance sheet as of June 30, 2014.

Lifestore Bank			
Table 1 - Major Components of Assets, Liabilities and Capital			
As of June 30, 2014			
Balance Sheet Component	Balance Sheet \$ Amount	% of Total Assets	\$ or % Growth in Period
Loans			
1-4 Family Residential Secured by 1st liens	\$91,477	36.08%	\$8,512
1-4 Family Residential Secured by junior liens	\$2,335	0.92%	-\$1,312
1-4 Family Residential, open-end	\$13,719	5.41%	-\$6,359
Non-residential Mortgage	\$38,010	14.99%	\$4,096
Investments			
Municipal Securities	\$18,658	7.36%	-\$2,711
Interest-Bearing Bank Balances	\$14,087	5.56%	-\$9,425
Total Assets	\$253,533		
Liabilities & Capital (LC)		% of Total LC	
Total Deposits	\$177,914	70.17%	-\$48,442
Federal Home Loan Bank Borrowings	\$41,000	16.17%	\$0
Total Liabilities	\$227,616		
All Common & Preferred Capital	\$25,917	10.22%	\$2,641
Total Capital	\$25,917		

LifeStore faces strong competition from other financial institutions in the AA. According to retail deposit data as of June 30, 2013, from the Federal Deposit Insurance Corporation (FDIC), LifeStore's retail deposits totaled approximately \$190 million and represented 14.2 percent (5th out of 13) of the total market share of deposits in Ashe and Watauga Counties. According to June 2013 FDIC's deposit market information, there were four other federally insured depository institutions operating 12 branch offices with a larger market share than LifeStore. Yadkin Bank and First Citizens Bank and Trust Company, Inc. had approximately 35 percent of the deposit market share in Ashe and Watauga Counties.

On May 5, 2012, LifeStore entered into a Formal Agreement with the Office of the Comptroller of the Currency (OCC). The Formal Agreement requires the Board to develop various plans to address credit risk management, asset quality, liquidity risk, risk management and earnings performance.

LifeStore's rating at the preceding CRA examination, dated September 7, 2010, was "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

LifeStore has defined Ashe and Watauga Counties of North Carolina as its assessment area (AA). The defined AA is contiguous and will be considered as one AA. Ashe and Watauga Counties are not part of the Metropolitan Statistical Area, and are therefore considered to be a non-MSA.

Based on the 2010 U.S. Census data, the total population of the AA is 78,360. Ashe and Watauga Counties contain a total of 19 census tracts; two moderate-income census tracts, eleven middle-income census tracts, and six upper-income census tracts. There are no low-income census tracts in the AA. LifeStore’s AA meets the technical requirements of the CRA and does not arbitrarily exclude low-income or moderate-income census tracts.

Some of the largest employers in Ashe and Watauga Counties are Appalachian State University, Appalachian Regional Healthcare System, Watauga County Board Of Education, Ashe County Board Of Education, and American Emergency Vehicles. As of June 2014, the unemployment rate in Ashe and Watauga Counties was 7.4 percent and 5.8 percent, respectively, while the unemployment rate for the state of North Carolina was 6.4 percent.

According to information obtained from a community contact, there is a need for micro (small dollar amount) commercial loans in Ashe and Watauga Counties. The community contact believes that this type of loan will help individuals start small businesses that will provide jobs for low and moderate-income individuals.

The following table highlights certain demographic characteristics of the AA:

Ashe and Watauga Counties Table 2 - Assessment Area Demographic Information								
Income Category	% Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	0.00%	0	0.00%	0.00%	0.00%	0.00%	\$0	0
Moderate	10.53%	2	7.25%	10.81%	2.50%	6.93%	\$102,211	38
Middle	57.89%	11	66.88%	69.64%	64.63%	67.93%	\$199,220	29
Upper	31.58%	6	25.86%	19.55%	32.87%	25.14%	\$241,925	31
Total # or \$	100.00%	19	100.00%	100.00%	100.00%	100.00%	\$203,231	30

Source: 2010 U.S. Census Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall lending performance is “Satisfactory.” This conclusion is based upon the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. All criteria of the specific lending tests are documented below.

Loan-to-Deposit Ratio

LifeStore’s average LTD ratio is more than reasonable considering the bank’s size, financial condition, and the AA’s credit needs. Since the last CRA examination in September 2009, the bank’s quarterly average LTD ratio for the 19 quarters is 97.11 percent. In comparison, the quarterly average LTD ratio among banks of similar size in North Carolina is 91.84 percent. During the 19-quarter period, the bank’s LTD ratio ranged from a high of 103.33 percent to a low of 91.75 percent. The peer average LTD ratios ranged from a high of 95.55 percent to a low of 89.6 percent.

Lending in Assessment Area

A substantial majority of the bank’s home purchase loans and commercial loans were originated in its AA. During the evaluation period, 85.7 percent of the number and 91.3 percent of the dollar amounts of home purchase loans were originated within the bank’s AA. While 74.1 percent of the number and 68.1 percent of the dollar amounts of commercial loans were originated within the bank’s AA. Table 3 details the number and dollar amount of the primary loan products originated within the AA.

Ashe and Watauga Counties										
Table 3 - Lending In and Outside of the AA (January 1, 2012-December 31, 2013)										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	48	85.71%	8	14.29%	56	\$8,431	91.31%	\$802	8.69%	\$9,233
Commercial	20	74.07%	7	25.93%	27	\$5,895	68.08%	\$2,764	31.92%	\$8,659

Source: Bank Loan Sample

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

The distribution of loans to borrowers of different incomes and businesses of different sizes reflects reasonable penetration throughout the AA.

Home Purchase Loans

LifeStore’s distribution of home purchase loans to borrowers of different income levels reflects reasonable penetration. We sampled forty-eight home purchase loans originated during 2012 and 2013 within the AA to determine the bank’s distribution of lending to borrowers of different incomes.

The percentage of loans to low-income borrowers reflects reasonable penetration compared to the lending activity of other federally regulated financial institutions reporting HMDA data in the AA, based on aggregate HMDA data for 2012. Aggregate data is not yet available for 2013. Additionally, LifeStore’s percentage of loans to low-income borrowers exceeded the number of low-income families in the AA. According to the 2010 U.S. Census, approximately 11.8 percent of families residing within the AA have incomes below the poverty level.

The percentage of loans to moderate-income borrowers reflects excellent penetration compared to the number of moderate-income families in the AA and to the percentage of lending activity by other federally regulated financial institutions’ in the AA.

Table 4 - Distribution of Loans By Borrower Income Level in Ashe and Watauga Counties AA				
Borrower Income Category	% of Loans	% of \$ Volume	% Family Distribution	% of Aggregate (or Peers)
Low	2.08%	0.73%	0.00%	2.91%
Moderate	20.00%	6.10%	10.53%	9.63%
Middle	10.00%	11.02%	57.89%	16.47%
Upper	68.00%	82.15%	31.58%	70.99%
Total # or \$	48	\$8.4MM	100.00%	100.00%

Source: Bank Loan Sample and 2010 U.S. Census data

Commercial Loans

LifeStore’s distribution of commercial loans reflected an excellent penetration among businesses of different sizes. Based upon our sample of 20 commercial loans, a substantial majority of loans were to businesses with revenues of \$1 million or less. This distribution exceeded the percentage of businesses with revenues less than \$1 million in the AA (75.2 percent). We also analyzed loan amounts as a proxy for lending to small businesses. Based upon our sample, a substantial majority of the total loans originated were for loan amounts of \$250 thousand or less.

Table 5 - Borrower Distribution to Businesses in Ashe and Watauga Counties AA			
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Total
% of AA Businesses	80.00%	20.00%	100.00%
% of Bank Loans in AA by #	16	4	20
% of Bank Loans in AA by \$	\$4,203,521	\$1,691,732	\$5,895,253

Source: Bank Loan Sample; Dunn and Bradstreet

Table 6 - Borrower Distribution of Loans to Businesses by Loan Size in Ashe and Watauga Counties AA				
Loan Size	Number of loans	Percent of Number	Dollar Volume of Loans	% of Dollars
\$0 - \$100,000	11	55.00%	\$448,429	7.61%
\$100,001 - \$250,000	5	25.00%	\$661,824	11.23%
\$250,001 - \$500,000	0	0.00%	\$0	0.00%
\$500,001 - \$1,000,000	2	10.00%	\$1,385,000	23.49%
Over \$1,000,000	2	10.00%	\$3,400,000	57.67%
Total	20	100.00%	\$5,895,253	100.00%

Source: Bank Loan Sample; Dunn and Bradstreet

Geographic Distribution of Loans

LifeStore’s distribution of loans through the different geographies in the AA reflects reasonable dispersion.

Home Purchase Loans

The geographic distribution of home purchase loans reflects reasonable dispersion among moderate-income geographies. The bank’s penetration of moderate-income census tracts exceeded the lending activity of other lenders in the AA. However, the bank’s lending in moderate-income census tracts was significantly below the number of owner occupied housing units. The two moderate-income tracts in the bank’s AA are located in rural, sparsely populated areas with low home resell rates. Given the characteristics of these tracts new loan demand is low which is also reflected in the aggregate peer data. Table 7 details the bank’s geographic distribution of home purchase loans compared to the percentage of owner occupied housing units (OOHU) located in each census tract and the lending activity of other lenders in the AA.

Census Tract Income Category	% of Loans	% of \$ Volume	% Owner Occupied	% of Aggregate (or Peers)
Low	0.00%	0.00%	0.00%	0.00%
Moderate	4.17%	1.76%	10.81%	3.21%
Middle	87.50%	89.22%	69.64%	70.00%
Upper	8.33%	9.01%	19.55%	26.79%
Total # or \$	48	\$8.4MM	100.00%	100.00%

Source: Bank Loan Sample & 2010 U.S. Census data

Commercial Loans

LifeStore’s geographic distribution of commercial loans reflects poor dispersion in moderate-income census tracts when compared to the percentage of businesses in the AA. Based upon our sample of 20 commercial loans, we determined that there were no loans originated in moderate-income census tracts. As shown in table 8, a little over four percent of the total businesses in the AA are located in moderate-income census tracts. As previously discussed, the moderate-income census tracts in the AA are rural, sparsely populated and have little to no economic growth resulting in poor demand for commercial loans in those areas.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
# of Commercial Loans	0	0	357	0	5,276	16	2,086	4
% of Total	0	0.00%	4.62%	0.00%	68.35%	80.00%	27.02%	20.00%

Source: Bank Loan Sample and Dunn & Bradstreet

Responses to Complaints

During the evaluation period, the bank did not receive any CRA related complaints.

Fair Lending or Other Illegal Credit Practices Review

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