



PUBLIC DISCLOSURE

June 10, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Washington Federal Bank For Savings
Charter Number: 712269

2869 S. Archer Ave
Chicago, IL 60608-5649

Office of the Comptroller of the Currency

Chicago - Schaumburg Field Office
1700 East Golf Road, Suite 800
Schaumburg, IL 60173

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 primary factors supporting this rating include:

- The loan-to-deposit ratio is more than reasonable given the bank's size and financial condition.
- A majority of loans are originated inside the bank's assessment area (AA).
- The bank's geographic distribution of loans reflects excellent distribution within the AA.
- The bank's borrower distribution of loans reflects reasonable distribution among borrowers of different income levels.

SCOPE OF EXAMINATION

This Community Reinvestment Act (CRA) examination assesses Washington Federal Bank for Savings' (Washington Federal) performance in meeting the credit needs of its community using full-scope Small Bank CRA examination procedures. The evaluation period for this assessment is September 16, 2008 through January 31, 2013.

The primary evaluation is performed under the lending test, which evaluates the bank's record of meeting the credit needs of its AA through lending activities. The loan review period for the lending analysis is January 1, 2010 through December 31, 2012. The lending analysis includes a review of Washington Federal's Home Mortgage Disclosure Act (HMDA) reportable residential loan originations and purchases. The bank's HMDA Loan Application Register (LAR) was reviewed for 2010, 2011, and 2012, with sample testing of the HMDA loan data performed to verify that it is accurately collected, maintained, and reported in accordance with the HMDA regulation and deemed reliable.

The CRA evaluation period covers two different sets of census information (year 2000 census results for the 2010 and 2011 data and the year 2010-census results for the 2012 data). As a result, this examination's analysis used both sets of data when discussing the bank's performance under the lending test. The lending analysis consisted of a review of all HMDA reported loans for the years 2010 and 2011 compared to the 2011 aggregate lending data and the 2000 census demographics. The 2012 lending data was also compared to the 2011 aggregate lending data and the 2010 census demographics. Using HMDA and census data, several demographic and lending reports were generated for the bank's 2010-2011 and 2012 data. Additionally, we reviewed the aggregate HMDA comparative lending data for origination activity within the assessment areas for 2010-2011. Aggregate HMDA data for 2012 was not yet available during this examination, thus the evaluation compares 2012 HMDA data to the 2011 aggregate lending data as well.

The reported Federal Deposit Insurance Corporation (FDIC) annual deposit information was used to determine the bank's deposit market share and market presence within its AA. The most recent deposit market share information is as of June 30, 2012.

DESCRIPTION OF INSTITUTION

Washington Federal is a federally chartered stock-owned institution, wholly owned by Washington Bancshares, Inc., with assets totaling \$119 million as of December 31, 2012. The bank's main office is located in a low-income census tract in Chicago's Bridgeport neighborhood, approximately three miles southwest of downtown Chicago. In addition to the main office, Washington Federal also has a branch just west of downtown Chicago in a moderate-income census tract. Both locations have an automated teller machine (ATM) and the main office has drive-up facilities.

Washington Federal offers a wide array of deposit and loan products. Loan products include residential and commercial mortgage loans, construction loans, home equity loans and home improvement loans. The bank's primary focus is residential mortgage lending. The bank's loan portfolio as of December 31, 2012, totaled \$101.7 million. One- to four-family real estate mortgages comprise 91 percent of the bank's loan portfolio. Deposit products include checking accounts, savings accounts, money market accounts, holiday club accounts, individual retirement accounts, and certificates of deposit.

Washington Federal has the financial capacity to assist in meeting the credit needs of its AA. Other than high competition around the Chicago land area, there are no legal, financial, or other circumstances impeding the bank's ability to help meet the credit needs of its AA. Overall, Washington Federal's strategic plan is not to compete with larger banks and to continue to offer long-term residential mortgage loans and real estate-related commercial loans in its AA.

The last performance evaluation under the CRA was dated September 15, 2008. The bank was evaluated by the Office of Thrift Supervision and received an overall rating of "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

Washington Federal has delineated its AA as a portion of Cook County within the Chicago-Joliet-Naperville, IL Metropolitan Division. The Bank's AA is bounded by Irving Park Road to the north, by 135th Street to the south, by Lake Michigan to the east, and by Harlem Avenue to the west.

According to the 2000 census data for 2010-2011, Washington Federal's AA consisted of 840 census tracts. According to the 2010 census data for 2012, the bank's AA now consists of 751 census tracts. Considering the bank's size, operational strategies, and office locations, the delineated AA meets the requirements of the CRA regulation, does not arbitrarily exclude any low- or moderate-income areas, and does not reflect illegal discrimination.

Washington Federal's 840 census tracts in 2010-2011 had a population of 2,712,619, with 969,810 households and 605,206 families. The area held 1,054,954 housing units,

of these units 43.7 percent were categorized as owner occupied. Multifamily units and rental units represented 34.6 percent and 48.3 percent of the total housing units, respectively. Washington Federal’s 751 census tracts in 2012 now hold a population of 2,552,248 total persons, with 944,586 households and 556,330 families. The area holds 1,099,395 housing units, of these units 43.4 percent were categorized as owner occupied. Multifamily units and rental units represented 33.8 percent and 42.6 percent of the total housing units, respectively. It is noted that 16.3 percent (2000 census data) and 17.1 percent (2010 census data) of the families within the bank’s AA are below the poverty level. See the tables below for demographic information on the bank’s AA.

2010-2011 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	34.34	221	18.75	8.87	24.97	17.01	116,496	42
Moderate	20.61	317	38.40	37.03	39.69	45.48	135,845	44
Middle	19.45	181	25.67	37.27	17.28	28.28	154,448	36
Upper	25.61	106	17.17	16.83	18.05	9.23	277,892	35
NA	0.00	15	0.00	0.00	0.01	0.01	39,038	32
Total # or \$	100.00	840	100.00	100.00	100.00	100.00	161,978	40

Source: 2000 U.S. Census

2012 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	35.10	216	23.53	12.92	30.08	24.91	203,118	45
Moderate	18.83	243	31.26	31.72	31.42	38.42	237,538	45
Middle	17.25	140	21.09	28.73	15.67	22.57	260,879	36
Upper	28.82	149	24.12	26.63	22.84	14.09	429,480	28
NA	0.00	3	0.00	0.00	0.00	0.00	0	0
Total # or \$	100.00	751	100.00	100.00	100.00	100.00	280,663	39

Source: 2010 U.S. Census

The bank’s AA is comprised of various kinds of financial institutions, which makes competition for potential applicants very strong. According to the FDIC’s Deposit Market Share Report, as of June 30, 2012, Washington Federal had a deposit market share of 0.05 percent, placing the bank in 100th place out of 147 financial institutions within Cook County. The AA is dominated by larger banks such as JP Morgan Chase and BMO Harris Bank, which hold the highest market shares within the AA at 25.97 percent and 11.88 percent, respectively.

During this evaluation, two community contacts were consulted to gain an understanding of the local community, its financial service needs, and the perceived performance of local financial institutions. One of the contacts, a realtor at a real estate brokerage firm, described the local community as working class and felt that the community's credit needs are being met since people are generally able to obtain loans. The contact also noted that people in the community typically try to provide down-payments of 20-30 percent for home purchases. The contact indicated that financial institutions are currently taking advantage of opportunities for participation in the community and described the performance of local financial institutions as strong. The contact believes that people prefer to go to local banks instead of a big bank since local banks tend to build more of a relationship with their customers. The second contact, a licensed life/health insurance agent and financial educator, described the community as widely diverse; from people who live in government subsidized housing to wealthy individuals. The contact also explain that there are many opportunities for banks to better serve the community, especially with the ever-growing population in the city of Chicago. The contact shared that all banking products that assist in economic recovery are needed.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Washington Federal has demonstrated a Satisfactory performance in meeting the credit needs of its AA. The loan-to-deposit (LTD) ratio is more than reasonable and a majority of the bank's lending activities are inside its AA. Additionally, the bank's geographic distribution indicates excellent distribution among different geographies within the bank's AA, while borrow distribution reflects reasonable distribution among borrowers of different income levels. There were no complaints related to the bank's CRA performance during the evaluation period.

Loan-to-Deposit Ratio

Washington Federal's quarterly average LTD ratio is more than reasonable given the bank's size, financial condition, and local competition. Washington Federal's LTD ratio for September 31, 2008 through December 31, 2012 averaged 98.89 percent. This ratio is well above the quarterly average LTD ratio of 80.60 percent for all peer institutions with \$50 to \$200 million in total assets. Thirty-four financial institutions are included in this peer group. As of December 31, 2012, the bank's LTD ratio was 94.93 percent. This is also well above the peer's average of 72.48 percent for the same quarter.

Lending in Assessment Area

The majority of the bank's lending during the evaluation period is inside the AA, with about three-fourth of the loans originated inside the AA (by number and dollars). According to the 2010-2011 data, Washington Federal originated 43 HMDA reportable loans. Of the 43 loans, 34, or approximately 79 percent, of the HMDA reportable loans were originated within the bank's AA. According to the 2012 data, Washington Federal

originated 14 HMDA reportable loans. Of the 14 loans, 8, or approximately 57 percent, of the HMDA reportable loans were originated within the bank's AA. Table 1 below shows the combined data covering the evaluation period.

Table 1 - Lending in Washington Federal's AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA	42	73.68	15	40.54	57	7,190	75.84	2,291	24.16	9,481

Source: 2000 & 2010 U.S. Census

Lending to Borrowers of Different Incomes

Washington Federal shows reasonable distribution of lending among borrowers of different income levels in its AA. This is based on the bank's HMDA reportable loans as compared to the percentages of aggregate HMDA reported loans for FDIC insured financial institutions (2010-2011), except for loans for which income was not available, and to the percentage of families in the different income levels in the bank's AA (2012).

In 2010 and 2011, Washington Federal's lending to low- and moderate-income borrowers is reasonable as the percentage of loans originated to low- and moderate-income borrowers is near the percentage of aggregate lending to low- and moderate-income borrowers. The bank's penetration in HMDA reported loans to low-income borrowers is lower than the percentage of low-income families in the AA. However, considering the family poverty rate of 16.3 percent and the fact that those low-income families could not readily afford homeownership, the bank's penetration to low-income borrowers is reasonable. The penetration of HMDA reported loans to moderate-income borrowers is reasonable as the percentage of loans originated to moderate-income borrowers is near the percentage of moderate-income families in the bank's AA. See Table 2A below for further details.

Table 2A – Borrower Distribution of Residential Real Estate Loans in Washington Federal's AA (2010-2011)				
Borrower Income Level	Washington Federal Number of Loans	Washington Federal Percentage of Loans	HMDA Peer Group Distribution Percentage	Family Distribution Percentage
Low	3	12.50%	12.89%	34.34%
Moderate	4	16.67%	19.18%	20.61%
Middle	5	20.83%	22.48%	19.45%
Upper	12	50.00%	45.44%	25.61%
NA	0	0.00%	-----	-----
Totals	24	100.00%	100.00%	100.00%

Source: HMDA data 2010-2011, aggregate HMDA data 2011, and U.S. Census Data 2000.

In 2012, the bank's lending to low- and moderate- income applicants does not meet standards. However, the bank's overall loan demand in 2012 was minimal and this

performance factor did not significantly impact the bank’s overall rating. Several significant mitigating factors were taken into consideration including the extreme real estate market recession experienced throughout the bank’s AA. Home values dropped significantly and the unemployment rate for Chicago remains much higher than the nationwide unemployment rate. Additionally, the unemployment rate in the bank’s low- to moderate-income areas is much higher than Chicago’s overall unemployment rate. Another external factor noted is the number of vacant housing units reaching 14.08 percent as of 2012. See Table 2B below for further details

Table 2B - Borrower Distribution of Residential Real Estate Loans in Washington Federal’s AA (2012)				
Borrower Income Level	Washington Federal Number of Loans	Washington Federal Percentage of Loans	HMDA Peer Group Distribution Percentage	Family Distribution Percentage
Low	0	0.00%	12.89%	35.10%
Moderate	0	0.00%	19.18%	18.83%
Middle	4	57.14%	22.48%	17.25%
Upper	3	42.86%	45.44%	28.82%
NA	0	0.00%	-----	-----
Totals	7	100.00%	100.00%	100.00%

Source: HMDA data 2012, aggregate HMDA data 2011, and U.S. Census Data 2010.

Geographic Distribution of Loans

Washington Federal’s distribution of loans in its AA among low- and moderate-income geographies is excellent. Table 3 below details the number and percentage of Washington Federal’s reported loans according to the income level of the census tracts within the bank’s AA. The table compares those loans to the percentages of aggregate HMDA reported loans for FDIC insured financial institutions and to the percentage of owner-occupied housing units (OOHU) within the bank’s AA.

In 2010 and 2011, Washington Federal’s lending to low- and moderate-income geographies is excellent as the percentage of loans originated in low- and moderate-income census tracts exceeded the percentage of aggregate lending in low- and moderate-income geographies. In addition, the percentage of bank loans originated in low- and moderate-income geographies exceeded the percentage of owner occupied housing units in the low- and moderate-income geographies in the bank’s AA. See Table 3A below for details.

Table 3A - Geographic Distribution of Residential Real Estate Loans in Washington Federal’s AA (2010-2011)				
Census Tract Income Level	Washington Federal Number of Loans	Washington Federal Percentage of Loans	HMDA Peer Group Distribution Percentage	OOHU Distribution Percentage
Low	4	11.76%	7.66%	8.87%
Moderate	18	52.94%	28.54%	37.03%

Middle	11	32.35%	30.78%	37.27%
Upper	1	2.94%	33.03%	16.83%
Totals	34	100.00%	100.00%	100.00%

Source: HMDA data 2010-2011, aggregate HMDA data 2011, and U.S. Census Data 2000.

In 2012, the bank’s geographic performance in low-income areas is excellent as the percentage of loans originated in low-income geographies significantly exceeded the 2011 aggregate lending in low-income geographies and the percentage of owner occupied housing units in the low-income census tracts in the bank’s AA. The bank’s geographic distribution in moderate-income areas was reasonable as the percentage of loans made in moderate-income census tracts was near the aggregate lending in moderate-income geographies and the percentage of owner occupied housing units in moderate-income geographies in the bank’s AA. See Table 3A below for details.

Table 3B - Geographic Distribution of Residential Real Estate Loans in Washington Federal’s AA (2012)				
Census Tract Income Level	Washington Federal Number of Loans	Washington Federal Percentage of Loans	HMDA Peer Group Distribution Percentage	OOHU Distribution Percentage
Low	4	50.00%	7.66%	12.92%
Moderate	2	25.00%	28.54%	31.72%
Middle	2	25.00%	30.78%	28.73%
Upper	0	0.00%	33.03%	26.63%
Totals	8	100.00%	100.00%	100.00%

Source: HMDA data 2012, aggregate HMDA data 2011, and U.S. Census Data 2010.

Responses to Complaints

Washington Federal did not receive any written comments or complaints regarding its CRA performance during this evaluation period. Neither the Office of Thrift Supervision nor the OCC has received any CRA related comments or complaints during the evaluation period.

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) 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 meet community credit needs.