



PUBLIC DISCLOSURE

April 9, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Savings and Loan Association
Charter Number 706902
211 West Main Street
Morehead, Kentucky

Office of the Comptroller of the Currency
10200 Forest Green Boulevard, Suite 501
Louisville, Kentucky 40223

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, and should not 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.

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Overall CRA Rating

The Institution is rated: **Satisfactory**.

First Federal Savings and Loan Association (FFS&L or Bank) has a **satisfactory** record of meeting community credit needs. In reaching our conclusion, primary weight was given to FFS&L's performance in lending to borrowers of different income levels. The satisfactory assessment is based on the following.

The Lending Test is rated **Satisfactory**.

The major factors supporting the rating for FFS&L include the following:

- FFS&L's loan-to-deposit ratio (LTD) exceeds standards for satisfactory performance.
- FFS&L originates a majority of loans inside the assessment area (AA).
- FFS&L originates a reasonable distribution of loans to borrowers of different incomes.
- The geographic distribution of residential loans throughout the AA, including moderate-income census tracts, is reasonable.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancing, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

FFS&L is an intrastate, mutual federal savings association headquartered in Morehead, Kentucky. Morehead is located in northeastern Kentucky. The Bank has a single location which is accessible to all segments of its community. It offers drive-up services but does not have an Automated Teller Machine (ATM). FFS&L offers non-transactional deposit accounts. Product offerings do not include checking accounts, electronic banking, credit, or debit cards.

Competition from other financial institutions is strong. FFS&L's competitors include several community banks, branches of large community banks, and a branch of a large regional bank. According to June 30, 2017 Federal Deposit Insurance Corporation (FDIC) data, seven banks with 11 offices, including FFS&L, operated within the AA. These branches held a combined total of \$323 million in deposits. FFS&L ranked fifth, with a 7.37 percent market share.

As of December 31, 2017, FFS&L reported \$33.96 million in total assets with \$30.47 in net loans. Tier 1 capital totaled \$9.57 million, and the tier 1 leverage ratio was 28.12 percent.

There were no legal or financial impediments to FFS&L's ability to meet the credit needs of its AA. The last CRA evaluation was performed by The Office of the Comptroller of the Currency (OCC) on December 17, 2012. FFS&L received a Satisfactory rating.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated FFS&L's CRA performance using the OCC's Small Bank CRA Examination Procedures, which assess an institution's record of meeting the credit needs of its AA through lending activities.

The CRA evaluation covers the period since the date of the previous CRA examination through April 9, 2018. Conclusions regarding the Bank's lending performance were based on a random sample of primary loan product originations between January 1, 2016 and December 31, 2017. The Bank's primary loan product is residential loans. As of December 31, 2017, net loans represented 87.43 percent of average assets with residential loans representing 79.84 percent of total loans. Residential loans were the focus of marketing efforts during the evaluation period.

Selection of Areas for Full-Scope Review

FFS&L has one AA, the entirety of Rowan County, Kentucky (non-MSA). Refer to Appendix B for a profile of the AA. We completed a full-scope review of the AA. Refer to Appendix A for more information.

Ratings

The Bank's overall rating is based on the volume of residential loans originated in the Bank's AA. As there were no low- or moderate-income CTs in the AA in 2017, our analysis placed more weight on lending to borrowers of different incomes.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

FFS&L's performance under the lending test is Satisfactory.

- The LTD ratio exceeds standards for satisfactory performance.
- FFS&L originates a majority of loans inside the AA.
- FFS&L originates a reasonable distribution of loans to borrowers of different incomes.
- The geographic distribution of residential loans throughout the AA, including moderate-income CTs, is reasonable.

Loan-to-Deposit Ratio

FFS&L's average LTD ratio exceeds standards for satisfactory performance given the Bank's size, financial condition, funding makeup, and the credit needs of its AA. The Bank's LTD ratio averaged 114.47 percent over the last 21 quarters, with a quarterly high of 126.25 percent and quarterly low of 101.47 percent. FFS&L ranked first among similarly-situated banks serving its AA. The other two banks had average LTD ratios of 67.36 and 88.19 percent, respectively, over the same 21 quarters.

Lending in Assessment Area

FFS&L originates a majority of loans inside its AA. The Bank originated 70 percent of residential loans, by number, in the AA. The table below details FFS&L's lending within the AA by number and dollar amount of loans originated during the evaluation period.

Table 1 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	14	70.00	6	30.00	20	932	65.22	497	34.78	1,429

Source: 2016-2017 loan sample.

Lending to Borrowers of Different Incomes

The distribution of loans reflects a reasonable distribution loans to low- and moderate-income families in the AA. This was based on a random sample of 22 loans originated in 2016 and 2017 within FFS&L's AA.

The Bank originated 13.64 percent of residential loans to low-income families and 9.09 percent to moderate-income families. Performance exceeded 2016 peer aggregate percentages to low-income borrowers of 6.5 percent and was below peer percentages to moderate-income borrowers of 16.5 percent (Note: 2017 data was not yet available for comparison purposes).

Rowan County was designated as a distressed geography during the evaluation period. Over 25 percent of AA families are living below the poverty level, which impacts their ability to purchase or maintain a home. Further, the Daniel Boone National Forest comprises a large portion of the AA, reducing availability of homes and increasing their value. In 2016, the AA median home value was \$112,491.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Rowan County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential	6.5	13.64	16.5	9.09	18.9	31.82	47.4	45.45

Source: 2016 Peer Mortgage Data (income not available for 10.7 percent of total applications) and 2016-2017 loan sample.

Geographic Distribution of Loans

The overall geographic distribution of loans among moderate-income CTs is reasonable (Note: There were no low-income CTs in the AA during the evaluation period).

The Bank originated 26.67 percent of residential loans in 2016 to borrowers in moderate-income CTs, slightly below the peer average of 33.8 percent. This conclusion was based on a random sample of loans originated in 2016. Changes to Rowan County income tract categories in 2017 resulted in no low- or moderate-income tracts. As such, an analysis of 2017 originations would not yield meaningful results.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Rowan County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential	N/A	N/A	33.8	26.67	N/A	N/A	66.2	73.33

Source: 2016 Peer Mortgage Data and 2016 loan sample.

Responses to Complaints

FFS&L did not receive any written complaints regarding its CRA performance during the evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: January 1, 2016 to December 31, 2017	
Financial Institution		Products Reviewed
First Federal Savings and Loan Association (FFS&L) Morehead, Kentucky		Residential mortgage loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
<i>Not Applicable</i>	<i>Not Applicable</i>	<i>Not Applicable</i>
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Rowan County, Kentucky	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

Rowan County¹

Demographic Information for Full-Scope Area: Rowan County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	0	0.0	75.0	25.0	0.0
Population by Geography	23,608	0.0	0.0	78.9	21.1	0.0
Owner-Occupied Housing by Geography	5,302	0.0	0.0	71.2	28.8	0.0
Businesses by Geography	1,392	0.0	0.0	77.5	22.5	0.0
Farms by Geography	48	0.0	0.0	52.1	47.9	0.0
Family Distribution by Income Level	5,171	22.9	14.6	17.1	45.4	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,945	0.0	0.0	84.7	15.3	0.0
Median Family Income HUD Adjusted Median Family Income for 2017 Households Below the Poverty Level	= \$51,642 = \$38,557 = 26%	Median Housing Value Unemployment Rate		=\$112,491 = 4.8%		

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census and 2016 HUD updated MFI.

The Bank's AA consisted of Rowan County, Kentucky. The AA is appropriate in relation to the location of the Bank's office and does not arbitrarily exclude any low- or moderate-income areas.

Rowan County was designated as a distressed nonmetropolitan middle-income geography during the evaluation period. The designation reflects local economic conditions, including unemployment, poverty, and population changes. As of November 30, 2017, Rowan County's unemployment rate was 4.8 percent, slightly above the state and national unemployment rates of 4.5 and 4.1 percent, respectively. Major employers were Morehead State University, Saint Claire Regional Medical Center, SRG Global, Family Dollar Stores, Inc., and Regal Beloit America, Inc.

According to the 2010 U. S. Census, the total population of the AA was 23,608. Rowan County is divided into four CTs. In 2016, there were no low-income tracts, two moderate-income, and two upper-income CTs.

¹ In 2017, changes in the County's tract income categories resulted in no low- or moderate-income tracts, three middle-income tracts, and one upper-income tract. The table above reflects data for 2017 only.

We performed one community contact in the AA. The contact identified general banking needs, including housing and small business lending. However, the contact stated the AA institutions are doing well to meet those needs.