Office of the
Comptroller of the Currency
Washington, DC 20219

SMALL BANK

PUBLIC DISCLOSURE

January 07, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lake Federal Bank, FSB
Charter Number 706128

7048 Kennedy Ave
Hammond, IN 46323-2212

Office of the Comptroller of the Currency

2001 Butterfield Road
Suite 400
Downers Grove, IL 60515

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 supporting the rating for the bank are as follows:

- Lending in its assessment area (AA) is reasonable and meets the standard for satisfactory performance. A majority of the number and dollar amount of home mortgage loans were originated within the bank's AA's.

- Distribution of loans reflects a reasonable penetration among borrowers of different income levels given the bank's product offerings, AA demographics, and current economic conditions.

- Geographic distribution of loans reflects reasonable dispersion throughout the AA, including low- and moderate-income geographies, given the bank's product offerings and local economic conditions.

- The quarterly average loan-to-deposit ratio of 93 percent over the evaluation period is more than reasonable given the bank's size, financial condition, and AA credit needs.

- The bank demonstrates adequate responsiveness to the community development needs of its AA through qualified investments.

SCOPE OF EVALUATION

This CRA Performance Evaluation is an assessment of Lake Federal Bank, Federal Savings Bank's (LFB) ability to help meet the credit needs of its community. The bank is evaluated under the Small Bank examination procedures, which consists of a lending test that evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities. At management's request, we also considered the bank's qualified investment activity. The evaluation period for this examination is from January 1, 2010 through December 31, 2013.

The lending test is based on LFB's primary loan product, home mortgage loans. This lending category accounts for 88 percent of all loan originations during the evaluation period by dollar and 63 percent by number. Consumer and commercial loans are not primary loan products. LFB reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The data was tested and found to be reliable; therefore, it was used in our lending analysis.

DESCRIPTION OF INSTITUTION

LFB is an intrastate financial institution with offices serving portions of northwest Indiana. The bank has three locations: the main office located in Hammond, and two branches located in Highland, and Saint John, Indiana.

LFB's primary business is to provide household banking services in the form of home mortgage loans and deposit related banking services to its customers. The bank is primarily active in providing mortgage loan products secured by one-to four-family dwellings, and to a lesser extent providing consumer loans, and commercial real estate loans.

There are no legal impediments to LFB's ability to help meet the credit and service needs of its AA; however, the bank's ability to lend during this evaluation period has been impacted by a weakened economy and strong competition in the AA.

DESCRIPTION OF ASSESSMENT AREA(S)

LFB has one AA encompassing 60 geographies in Lake County, Indiana, all located in the Gary, Indiana Metropolitan Division (MD). Lake County, Indiana is bordered by Chicago, Illinois on the west and Lake Michigan on the north. The geographies are designated low-, moderate-, middle-, and upper-income. Currently, there are seven low- and 17 moderate-income geographies in the AA. The bank's AA changed from the prior evaluation to include geographies in Saint John and Cedar Lake, Indiana. The AA is contiguous and meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

We contacted a community housing organization who stated that the local economy has been hit hard, but there are some signs of stabilization. Lake County is the second highest in the state for foreclosures. Since the economic downturn, both residents and banks have been struggling. Unemployment remains high in the area at almost 10 percent. The community's number one need is new business attraction to keep people employed in the area. As industry in Gary and Hammond, and other surrounding communities left, the jobs have been very slow to replace. Service organizations are depending more heavily on the banks and businesses in the area for donations of time, expertise, and money. The majority of the banks in Hammond, Highland, and other surrounding areas are active in the community, and involved with the business owners and service groups in the area.

Credit needs in the community are focused on residential real estate, business needs, and small consumer loans. Our community contact stated that area banks, big or small, have generally done a good job of meeting community needs. He stated that banks need to be flexible to help the residents, and though there is some economic stabilization, Lake County has been hit harder than most counties in the state. Further, our contact stated that the banks have worked hard to let their borrowers know of the loan modification programs for homebuyers and foreclosure prevention programs, which has helped to prevent some foreclosures.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

LFB's net average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly loan-to-deposit ratio averaged 93 percent over the eleven quarters in the evaluation period. LFB's net average quarterly loan-to-deposit ratio ranks highest as compared to other community banks of similar size and location, which ranged from 70 percent to 91 percent over the same period. The six peer institutions are located in Lake County with total assets ranging from $58 million to $693 million.

As of December 31, 2013, LFB had total assets of $68 million, total loans of $48 million, and total deposits of $50 million. The loan to deposit ratio was 96 percent.

Lending in Assessment Area

LFB's lending in its AA is reasonable and meets the standard for satisfactory performance. A majority of the number and dollar amount of home mortgage loans were originated within the bank's AA. Lending inside the AA by number is 71 percent and by dollar is 69 percent.

The following table details the bank's lending within the AA based on the number and dollar volume of home mortgage loan originations during the evaluation period.

Lending in LFB's AA								
Loan Type	Number of Loans				Dollar of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	$	%	$	%
Home Mortgage	132	71	53	29	15,363	69	6,747	31

Source: All HMDA reported loans from 2010, 2011, 2012, and 2013.

Lending to Borrowers of Different Incomes

The borrower distribution of LFB's home mortgage loans reflects reasonable distribution among all borrowers in the AA. There are limited opportunities to make loans in the AA considering the median housing value, a high unemployment rate, and a high level of households that are below the poverty level.

The Gary MD has been more adversely impacted by the economic crisis as evidenced by their unemployment rates compared to the state and national levels. According to the *Bureau of Labor Statistics*, unemployment in the Gary MD was 10.3 percent in 2010, compared to 9.2 percent for the state of Indiana and 9.4 percent nationally (as reported by the *Indiana Department of Workforce Development*). It declined over the evaluation period, but remained high at 8.7 percent in 2013, compared to 6.8 percent for the state of Indiana and 6.7 percent, nationally.

In addition, competition in the bank's AA is strong, per the 2012 Peer Data Loan Market Share report, 291 financial institutions in the bank's AA originated loans during the evaluation period, the majority of which are large regional institutions. Of the lenders in the AA during 2012, LFB ranked 48th in extending home mortgage loans.

Our evaluation focused on the bank's lending distribution to low- and moderate-income borrowers in the AA compared to the aggregate industry lending percentage. We also compared LFB's performance to the level of low- and moderate-income families within the AA. Home improvement lending is not a primary product of the bank; therefore, the volume of home improvement loans was not material enough for a meaningful analysis of borrower distribution. Home improvement lending was thereby excluded from evaluation.

<u>Borrower Distribution Home Mortgage Loans 2010 - 2011</u>

Mortgage Loans	Total Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans
Home Purchase	23	100	20.64	8.70	17.91	21.74	23.00	21.74	38.45	47.83
Home Refinance	40	100	20.64	20.00	17.91	12.50	23.00	25.00	38.45	42.50

Source: All HMDA reported loans from 2010 and 2011. Percentage of families is based on 2000 Census Data. Aggregate lending data is based on 2011 Peer Mortgage Data.

The distribution of home purchase loans to low-income borrowers is below the percentage of low-income families, while the distribution of home purchase loans to moderate-income borrowers exceeds the percentage of moderate-income families. The distribution of home purchase loans to low-income borrowers (9 percent) and moderate-income borrowers (22 percent) is below the aggregate industry lending percentages of 15 percent and 33 percent, respectively.

The distribution of home refinance loans to low-income borrowers is near the percentage of low-income families. The distribution of home refinance loans to moderate-income borrowers is below the percentage of moderate-income families. The distribution of home refinance loans to low-income borrowers (20 percent) greatly exceeds the aggregate industry lending percentage of 8 percent. However, the distribution of home refinance loans to moderate-income borrowers (13 percent) is below the aggregate industry lending percentage of 20 percent.

As previously indicated, opportunities to make home mortgage loans to low- and moderate-income borrowers within the bank's AA is limited due to the median housing value of $106 thousand, high poverty level of 11 percent, and a high unemployment rate of 9.1 percent in 2011.

Borrower Distribution Home Mortgage Loans 2012 - 2013

Mortgage Loans	Total Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans
Home Purchase	48	100	18.33	4.17	18.74	10.42	24.28	39.58	38.65	45.83
Home Refinance	49	100	18.33	6.12	18.74	10.20	24.28	24.49	38.65	59.18

Source: All HMDA reported loans from January 1, 2012 through December 31, 2013. Percentage of families is based on the 2010 Census Data. Aggregate lending data is based on 2012 Peer Mortgage Data.

The distributions of home purchase loans to low- and moderate-income borrowers are below the percentages of low- and moderate-income families. The distribution of home purchase loans to low-income borrowers (4 percent) and moderate-income borrowers (10 percent) is well below the aggregate industry lending percentages of 13 percent and 28 percent, respectively.

The distributions of home refinance loans to low- and moderate-income borrowers are below the percentages of low- and moderate-income families. The distribution of home refinance loans to low-income borrowers (6 percent) and moderate-income borrowers (10 percent) is below the aggregate industry lending percentages of 8 percent and 16 percent respectively.

Performance during this period deteriorated due to continued adverse employment statistics. According to the 2010 census data for the AA, families below the poverty level increased to 13 percent, while the median housing value increased to $142 thousand, making qualifying for a home mortgage loan more difficult. In addition, area unemployment remained high at 8.7 percent in 2013. Income restraints on the low- and moderate-income segment of the AA made it difficult for borrowers to purchase or refinance home loans. As such, 39 percent of the housing units in the AA are rental units according to the 2012 Demographic Data for the AA.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA, including low- and moderate-income geographies, given the bank's product offerings and local economic conditions. Lending opportunities in low and moderate-income geographies within the AA are also limited. Home improvement loans are not a primary product, therefore, we did not rely on LFB's home improvement lending performance to assess geographic distribution.

Opportunities within the low- and moderate-income geographies are limited as less than half of the geographies in the AA are low- or moderate-income. Also, although 22 percent of the housing units are owner-occupied within the low- and moderate-income geographies in this AA, competition is strong. The bank ranks 48th in extending home mortgage loans out of 291 financial institutions in the AA, the majority of which are large, regional institutions. Despite the strong competition, the bank was still able to provide both home purchase and refinance loans in the moderate-income geographies of the AA, and in many cases exceed the aggregate HMDA lending comparators.

Geographic Distribution Home Mortgage Loans 2010 – 2011

Mortgage Loans	Total Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% OO Units	% Bank Loans	% OO Units	% Bank Loans	% OO Units	% Bank Loans	% OO Units	% Bank Loans
Home Purchase	23	100	1.58	0.00	21.62	21.74	39.84	34.78	36.96	43.48
Home Refinance	40	100	1.58	2.50	21.62	17.50	39.84	30.00	36.96	50.00

Source: HMDA reportable loans originated January 1, 2010 through December 31, 2011. Percentage of owner-occupied (OO) units is based on the 2000 Census Data. Aggregate lending data is based on 2011 Peer Mortgage Data.

The bank did not originate or purchase any home purchase loans in low-income geographies during this period; therefore, the bank's performance is just below the percentage of owner-occupied units in those geographies. Nevertheless, their performance is reasonable given the aggregate HMDA lending percentage in those geographies is 0.23 percent. Furthermore, the distribution of home purchase loans in moderate-income geographies exceeds the percentage of owner-occupied units in those geographies and well exceeds the aggregate HMDA lending percentage of 15 percent.

The distribution of home refinance loans in low-income geographies exceeds the percentage of owner-occupied units in those geographies. The distribution of home refinance loans in moderate-income geographies is below the percentage of owner-occupied units in those geographies. The bank's performance is reasonable given their performance well exceeds the aggregate HMDA lending percentage of 0.11 percent in low-income geographies, and 7 percent in moderate-income geographies.

Geographic Distribution of Home Mortgage Loans 2012 – 2013

Mortgage Loans	Total Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% OO Units	% Bank Loans	% Units	% Bank Loans	% Units	% Bank Loans	% Units	% Bank Loans
Home Purchase	48	100	2.39	0	21.61	19.23	25.64	38.46	50.35	42.31
Home Refinance	49	100	2.39	0	21.61	10.20	25.64	38.78	50.35	51.02

Source: HMDA reportable loans originated January 1, 2012 through December 31, 2013. Percentage of owner-occupied (OO) units is based on the 2010 Census Data. Aggregate lending data is based on 2012 Peer Mortgage Data.

The bank did not originate or purchase any home purchase loans in low-income geographies during this period; therefore, the bank's performance is just below the percentage of owner-occupied units in those geographies. The bank's performance is reasonable given the low aggregate HMDA lending percentage of 0.3 percent in low-income geographies. The distribution of home purchase loans in moderate-income geographies is also just below the percentage of owner-occupied units in those geographies but well exceeds the aggregate HMDA lending percentage of 15 percent.

The bank also did not originate or purchase any home refinance loans in low-income geographies during this period; therefore, their performance is just below the percentage of owner-occupied units in those geographies. Also, the distribution of home refinance loans in moderate-income geographies is below the percentage of owner occupied units in those geographies. This performance is reasonable given the low aggregate HMDA lending percentage of 0.4 percent in low-income geographies and the bank exceeding the aggregate HMDA lending percentage of 7 percent in moderate-income geographies.

Qualified Investments

In addition to meeting community credit needs through lending, the bank also made a qualified investment totaling $450 thousand to a certified Community Development Financial Institution (CDFI) during the evaluation period. The CDFI is an out of area minority owned financial institution that provides community development lending in low- and moderate-income areas. In determining the eligibility of the investment, we first considered the bank's ability to meet the credit needs of their AA through lending activities. LFB's lending in its AA is reasonable; therefore, the investment was given favorable consideration.

Responses to Complaints

LFB has not received any complaints about its performance in meeting the credit needs of the community during this 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 AA 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.