



## **PUBLIC DISCLOSURE**

May 04, 2015

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Federal Bank, A FSB  
Charter Number 706432

1300 McFarland Boulevard, NE  
Tuscaloosa, AL 35403

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Birmingham Field Office  
3595 Grandview Parkway  
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Birmingham, AL 35243

**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**

First Federal Bank (FFB or Bank) has a **satisfactory** record of meeting community credit needs. This conclusion is based on the following:

- The average loan-to-deposit ratio is more than reasonable given the Bank's size, financial condition, economic environment, and assessment area (AA) credit needs.
- FFB originated a majority of loans outside the AA, a result of the Bank having loan production offices throughout Alabama and Florida to support its mortgage lending operations.
- Loan analysis indicates that the distribution of loans reflects reasonable penetration among individuals of different income levels.
- Loan analysis indicates that the institution had a reasonable dispersion of home loans to low- and moderate-income census tracts in the AA.
- The Bank shows adequate responsiveness to Community Development lending opportunities in the state of Alabama.
- The Bank did not receive any consumer complaints regarding Community Reinvestment Act (CRA) performance during this evaluation period.

## **SCOPE OF EXAMINATION**

We evaluated FFB under the Small Bank examination procedures, comprised of a Lending Test, to assess its performance under the Community Reinvestment Act (CRA). The Lending Test evaluates the Bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The Bank's previous CRA rating, dated August 13, 2010, was "Satisfactory." This performance evaluation starts from the date of the Bank's previous CRA examination, covering the period from August 14, 2010 through May 4, 2015.

FFB's primary loan product is 1-4 family residential real estate loans, representing 87 percent of total loans at December 31, 2014. The Bank also originates 1-4 family residential real estate loans to sell in the secondary market. Because 1-4 family residential loans represent a significant portion of the Bank's lending strategy during the review period, we based conclusions solely on an analysis of this loan product. The Bank is a Home Mortgage Disclosure Act (HMDA) reporter and our analysis used HMDA data from 2012, 2013, and 2014 to form conclusions. A data integrity exam performed in April 2015 validated the accuracy of the HMDA data.

## **DESCRIPTION OF INSTITUTION**

FFB is a federal savings bank with total assets of \$115 million at December 31, 2015. The Bank is wholly owned by Southeastern Financial, Inc., a one-bank holding company located in Tuscaloosa, AL. FFB operates its main office in a middle-income census tract in Tuscaloosa, AL. FFB operates two additional branches in moderate- and upper-income census tracts in Tuscaloosa, AL. FFB also operates 10 loan production offices (LPO), with one LPO located within the Tuscaloosa MSA AA. The remaining nine LPOs are located outside the Bank's AA. The Bank has not opened or closed any branches since the 2010 Performance Evaluation. No

legal or financial factors impede FFB’s ability to meet the credit needs of the community it serves.

The Bank is primarily a single-family mortgage lender, with 1-4 family mortgage loans to residential borrowers for home construction, purchase, and refinance. FFB offers both fixed and adjustable rate conventional mortgage loans, construction mortgage loans, home equity lines of credit, other special purpose consumer loans, and “bridge financing,” which provides borrowers interim financing to buy a new home before they sell an existing home. The Bank also participates in the Veteran’s Affairs (VA) and Federal Housing Administration (FHA) loan programs. FFB offers various deposit products, including personal checking, savings, money market, certificates of deposit, IRA accounts, small business checking accounts, and commercial checking and money market accounts. FFB also offers online banking to its customers.

The table below provides details regarding FFB’s loan composition as of December 31, 2014.

| <b>Loan Portfolio Composition as of December 31, 2014</b> |                              |                               |
|---|------------------------------|-------------------------------|
| <b>Loan Type</b>  | <b>Dollar Amount (000’s)</b> | <b>Percent of Total Loans</b> |
| Construction and Land Development                         | 7,730                        | 8.65%                         |
| Secured by Farmland                                       | 0                            | 0.00%                         |
| One-to-Four Family Residential                            | 77,864                       | 87.09%                        |
| Commercial Real Estate                                    | 2,504                        | 2.80%                         |
| <b>Total Real Estate Loans</b>                            | <b>88,098</b>                | <b>98.53%</b>                 |
| Agricultural  | 0                            | 0.00%                         |
| Commercial and Industrial                                 | 19                           | 0.02%                         |
| Consumer  | 1,196                        | 1.34%                         |
| Other   | 98                           | 0.11%                         |
| <b>Total Loans</b>  | <b>89,411</b>                | <b>100.00%</b>                |

Source: December 31, 2014 Report of Condition

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FFB has one AA, comprised of the 58 census tracts in Hale, Pickens, and Tuscaloosa counties, which make up the Tuscaloosa Metropolitan Statistical Area (MSA). The AA has a population of 230,162 according to the 2010 census data. The MSA AA is comprised of 7 low-income, 19 moderate-income, 20 middle-income, and 12 upper-income census tracts. The AA meets the requirements of the regulation, and does not arbitrarily exclude low- and moderate-income geographies.

Competition in the AA is strong given the presence of several large institutions in the area, including Regions Bank, Wells Fargo Bank, and PNC Bank. FFB holds 3 percent of the deposit share within the AA. Lending in the AA is adversely impacted by the elevated poverty rate within the low- and moderate-income tracts.

Local employment in the area is heavily dependent upon the University of Alabama, which employs nearly 11,000. The student population has doubled in size over the past decade, to total 36,000. The nearby Mercedes-Benz plant in Tuscaloosa County, AL also provides a significant

number of jobs in the AA. The plant employs 4,000 people, but a representative with the local Chamber of Commerce stated over 8,000 people work at the plant each day, including employees of on-site suppliers.

We discussed the community’s lending needs with a representative of the Chamber of Commerce of West Alabama. The organization’s primary objective is to serve its member businesses in Tuscaloosa County through training programs, lobbying efforts, attracting members, and workforce development. The contact revealed that local banks are meeting the small business needs in the area, but must provide further investment in local businesses.

The following table shows the demographic and economic characteristics of the AA.

| <b>Demographic Information for Tuscaloosa MSA</b>                          |         |            |                                     |               |              |             |
|--|---------|------------|-------------------------------------|---------------|--------------|-------------|
| Demographic Characteristics  | # Total | Low % of # | Moderate % of #                     | Middle % of # | Upper % of # | N/A* % of # |
| Geographies (Census Tracts/BNAs)   | 58      | 10.34      | 29.31                               | 37.93         | 22.41        | 0           |
| Population by Geography  | 230,162 | 9.10       | 24.00                               | 39.48         | 27.42        | 0           |
| Owner-Occupied Housing by Geography  | 100,045 | 3.31       | 20.76                               | 42.36         | 33.57        | 0           |
| Businesses by Geography  | 16,106  | 6.53       | 27.02                               | 37.80         | 28.65        | 0           |
| Farms by Geography   | 614     | 1.30       | 33.39                               | 36.97         | 28.34        | 0           |
| Family distribution by Income Level  | 52,254  | 4.65       | 23.29                               | 40.19         | 31.87        | 0           |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 20,488  | 9.21       | 35.59                               | 38.53         | 16.66        | 0           |
| Median Family Income, last Census 2010                                     |         | \$57,428   |                                     |               |              |             |
| HUD Adjusted Median Family Income for 2014                                 |         | \$57,200   | Unemployment Rate                   |               |              | 4.4%        |
| Households Below Poverty Level   |         | 21%        |                                     |               |              |             |
| % Businesses with Revenues < \$1 million                                   |         | 72%        | % Farms with Revenues < \$1 million |               |              | 98%         |
| % Businesses with Revenues > \$1 million                                   |         | 4%         | % Farms with Revenues > \$1 million |               |              | 1%          |

Source: 2010 U.S. Census data; 2014 HUD updated income data; Bureau of Labor Standards.

\* The N/A category consists of geographies that have not been assigned an income classification.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FFB’s average loan-to-deposit (LTD) ratio is more than reasonable given the Bank’s size, financial condition, and assessment area credit needs, and meets the standards for outstanding performance. The LTD ratio averaged 113.84 percent over the 20 quarters since the previous CRA examination, with a quarterly low of 93.43 percent and a quarterly high of 135.75 percent. The LTD ratio is more than reasonable when compared to four similarly situated institutions, which had average LTD ratio of 50.29 percent over the review period.

### Lending in Assessment Area

FFB originated a substantial majority of HMDA-reportable loans outside its AA. Our review indicated that approximately 27 percent of the number of loans and 31 percent of the dollar

volume of loans originated from January 1, 2012, through December 31, 2014 were to borrowers located within the bank’s AA. The Bank's primary source of income is the origination and sale of mortgages to the secondary market. In order to support this strategy, the Bank has 10 LPOs to generate enough loan volume to make this a profitable line of business. Only one of these LPOs is located the Bank’s AA, so most of the Bank's HMDA reportable loans are originated outside the AA.

Despite low lending activity within the AA, performance is adequate and meets the standards for satisfactory performance. The presence of several active, large bank and peer competitors within the Tuscaloosa MSA, the Bank’s limited deposit market share of 3 percent within the AA, and community contact data indicating that AA credit needs are being met, are mitigating factors to the results of the bank’s Inside/Outside ratio and loan performance within the AA.

The following table details lending within the AA by number and dollar amount of HMDA reportable loans originated during the evaluation period.

| <b>Lending in AA</b> |                 |       |         |       |       |                  |       |         |       |           |
|----------------------|-----------------|-------|---------|-------|-------|------------------|-------|---------|-------|-----------|
| Loan Type            | Number of Loans |       |         |       |       | Dollars of Loans |       |         |       |           |
|                      | Inside          |       | Outside |       | Total | Inside           |       | Outside |       | Total     |
|                      | #               | %     | #       | %     |       | \$               | %     | \$      | %     |           |
| Home Purchase        | 1,734           | 25.46 | 5,078   | 74.54 | 6,812 | 276,431          | 29.82 | 650,569 | 70.18 | 927,000   |
| Home Improvement     | 2               | 33.33 | 4       | 66.67 | 6     | 433              | 51.18 | 413     | 48.82 | 846       |
| Home Refinance       | 420             | 31.91 | 896     | 68.09 | 1,316 | 72,068           | 34.93 | 134,280 | 65.07 | 206,348   |
| Totals               | 2,156           | 26.51 | 5,978   | 73.49 | 8,134 | 348,932          | 30.76 | 785,262 | 69.24 | 1,134,194 |

Source: HMDA Data; US Census Data

**Lending to Borrowers of Different Incomes**

FFB’s lending to borrowers of different income levels is reasonable and meets the standards for satisfactory performance. Low-income families represent 22.32 percent of the AA. Although the Bank achieved a significantly lower penetration of home purchase, home improvement, and home refinance loans to low-income borrowers, at 4.45 percent, 8.33 percent, and 4.56 percent, respectively, 21 percent of the AA population lives below the poverty level. This high rate of poverty impedes FFB’s ability to originate home loans to qualified low-income borrowers. In addition, 6 of 7 low-income census tracts in the AA are located around the University of Alabama, where the 30,000 student base does not typically need home loans. Considering these factors, the Bank achieved reasonable penetration for home loans to low-income borrowers.

Moderate-income families represent 16.89 percent of the AA. The distribution of home purchase and home improvement loans reflects excellent penetration, at 20.14 percent and 16.67 percent, respectively. The distribution of home refinance loans, at 11.03 percent, reflects reasonable penetration.

The following table shows the distribution of home loans among borrowers of different income levels, as compared to the percent of families in each income category.

| <b>Borrower Distribution of Residential Real Estate Loans in AA</b> |                   |                      |                   |                      |                   |                      |                   |                      |
|---|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| Borrower Income Level   | Low               |                      | Moderate          |                      | Middle            |                      | Upper             |                      |
| Loan Type   | % of AA Aggregate | % of Number of Loans | % of AA Aggregate | % of Number of Loans | % of AA Aggregate | % of Number of Loans | % of AA Aggregate | % of Number of Loans |
| Home Purchase   | 22.32             | 4.45                 | 16.89             | 20.14                | 19.36             | 23.20                | 41.44             | 32.04                |
| Home Improvement  | 22.32             | 8.33                 | 16.89             | 16.67                | 19.36             | 22.73                | 41.44             | 40.53                |
| Home Refinance  | 22.32             | 4.56                 | 16.89             | 11.03                | 19.36             | 17.73                | 41.44             | 44.51                |

Source: HMDA Data; US Census Data

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the AA and meets the standards for satisfactory performance. Owner-occupied housing in the low-income census tracts represents only 3.31 percent of the AA, illustrating the high usage of rental properties, and therefore reduced need for home loans. FFB originated 2.27 percent of home improvement loans and 2.26 percent of home refinance loans in low-income census tracts, which is near the demographic comparator and reflects reasonable dispersion. FFB originated 1.93 percent of home purchase loans in low-income census tracts, which is lower than the demographic comparator and reflects poor dispersion.

Owner-occupied housing in the moderate-income census tracts represents 20.76 percent of AA housing. FFB originated 26.14 percent of home improvement loans in moderate-income census tracts, reflecting more than reasonable dispersion. The dispersion of home purchase, at 10.44 percent, and home refinance loans, at 12.08 percent, in moderate-income census tracts is poor, as both are below the demographic comparator. However, the high poverty rate of 21 percent in the AA is even more pronounced in moderate-income census tracts, where 34 percent of the population lives below the poverty line. Given these circumstances, the bank meets the standards for satisfactory geographic distribution of credit to low- and moderate-income borrowers. The following table shows the geographic distribution of home loans among census tracts of different income levels.

| <b>Geographic Distribution of Residential Real Estate Loans in AA</b> |                   |                      |                   |                      |                   |                      |                   |                      |
|---|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| Census Tract Income Level   | Low               |                      | Moderate          |                      | Middle            |                      | Upper             |                      |
| Loan type   | % of AA Aggregate | % of Number of Loans | % of AA Aggregate | % of Number of Loans | % of AA Aggregate | % of Number of Loans | % of AA Aggregate | % of Number of Loans |
| Home Purchase   | 3.31              | 1.93                 | 20.76             | 10.44                | 42.36             | 35.75                | 33.57             | 51.88                |
| Home Improvement  | 3.31              | 2.27                 | 20.76             | 26.14                | 42.36             | 37.12                | 33.57             | 34.47                |
| Home Refinance  | 3.31              | 2.26                 | 20.76             | 12.08                | 42.36             | 40.04                | 33.57             | 45.62                |

Source: HMDA Data; US Census Data

### **Responses to Complaints**

FFB has not received any CRA-related complaints since the previous CRA examination.

### **Community Development Lending**

Since the preceding CRA Performance Evaluation, FFB originated 34 loan participations totaling \$427,451 to the Alabama Multifamily Loan Consortium (AMLC). The AMLC is a 501(c)(3) non-profit organization that was created jointly by the Alabama Bankers Association and Alabama Housing Finance Authority. AMLC creates housing opportunities for low- and moderate-income families throughout Alabama, by providing affordable financing options for multifamily housing statewide. Projects range widely, with loans from \$300,000 to \$3 million to help developers buy land or buildings and build or repair housing to create affordable rental property for low-income families. Of the many projects AMLC financed across the state, three are currently located in the Tuscaloosa MSA, with two additional projects set to close in the area soon.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 195.28(c), in determining a Federal Savings Association's (FS) CRA rating, respectively, 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 to meet community credit needs.