PUBLIC DISCLOSURE

October 15, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

A.J. Smith Federal Savings Bank
Charter Number 700358

14757 Cicero Avenue
Midlothian, IL 60445

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

- A substantial majority of the number and dollar amount of residential real estate loans were originated within the institution's assessment area (AA).
- The borrower distribution of home mortgage loans reflects a reasonable penetration among all borrowers in the AA, given the institution's product offerings and local economic conditions.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA, including low- and moderate-income geographies, given the institution's product offerings and local economic conditions.
- The quarterly average loan-to-deposit ratio is reasonable over the evaluation period.

SCOPE OF EVALUATION

This purpose of this evaluation was to assess A. J. Smith's ("bank") ability to help meet the credit needs of its community. The bank is evaluated under the small bank evaluation procedures, which consist of a lending test that evaluates the institution's record of helping to meet the credit needs of its AA through lending activities. The evaluation period is from August 7, 2009, through October 14, 2014. Lending data analyzed for this evaluation covers loans originated and purchased from January 1, 2012, through September 30, 2014.

The lending test is based on A. J. Smith's primary loan product, which is residential real estate. This lending category represents 90 percent of the number and 87 percent of the dollar amount of loan originations during the evaluation period. As of September 30, 2014, residential real estate lending represents 91 percent of total loans. During the evaluation period, purchase and refinance real estate loans represented the majority of residential real estate lending. These products received equal weight in our analysis. Home improvement and multifamily lending was minimal and would not have had a material impact in the evaluation of the bank's overall lending performance. Therefore, we did not perform an analysis of home improvement and multifamily loans. A. J. Smith reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). We tested the HMDA data and found it was reliable; therefore, we used it in our lending analysis.

For the purpose of this evaluation period, we analyzed HMDA loans originated and purchased January 1, 2012, through September 30, 2014, using 2010 Census data and 2012 peer mortgage data.

DESCRIPTION OF INSTITUTION

A. J. Smith is an intrastate federal savings association with total assets of $216 million, as of September 30, 2014. A. J. Smith has three full-service banking offices and three automated teller machines (ATMs) located in Midlothian and Orland Park, Illinois.

A. J. Smith's primary business is to provide household banking services, including residential real estate lending and deposit related banking services to its customers. The institution is primarily active in providing loans secured by one-to four-family dwellings, and to a lesser extent, providing loans secured by multifamily dwellings and commercial real estate.

A. J. Smith has no financial or legal constraints that prevent the bank from meeting the credit needs of its AA. A. J. Smith's previous CRA rating was Satisfactory as issued by the Office of Thrift Supervision using small bank evaluation procedures on August 6, 2009.

DESCRIPTION OF ASSESSMENT AREA

A. J. Smith's AA encompasses portions of Cook, DuPage, and all of Will County. These counties are part of the Chicago-Naperville-Joliet, Illinois Metropolitan Division (MD). The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. Based on the 2010 Census data, this AA includes 21 percent in low-income geographies and 26 percent in moderate-income geographies.

Local economic conditions and AA competition have limited the bank's home mortgage lending opportunities during the evaluation period. In 2013, the Federal Financial Institutions Examination Council (FFIEC) adjusted median family income is $73,400. The annual area unemployment in 2013 remained high at 8.8 percent (*Bureau of Labor Statistics*). According to the 2010 Census data, the median home value was $260,000 and 33 percent of the housing units in the AA were rental units. Furthermore, competition in the AA is strong. Per the 2012 Peer Data Loan Market Share report, the bank ranks 192 of 872 financial institutions in the AA that originated loans during the evaluation period. Despite the limited opportunities in the AA, the bank was able to identify and provide home purchase and refinance lending to low- and moderate-income individuals.

As part of this CRA examination, we referred to a community contact in the metropolitan statistical area (MSA) to help ascertain the credit needs of the AA. The community contact noted that lending needs in the area include individual residential, consumer and small business loans. The contact stated that the area businesses and residents have been slow to recover from the economic downturn in 2008. According to the community contact, property foreclosures remain high and peaked in 2011. The contact indicated that local banks are responsive to meeting the credit needs of the community through lending, loan modifications, and community support.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

A. J. Smith's quarterly average loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and AA credit needs. As of September 30, 2014, the bank's LTD ratio was 68 percent. The bank's LTD ratio averaged 68 percent for the prior 16 quarters. A. J. Smith ranked mid-range of 16 similarly situated financial institutions. Similarly situated institutions are defined as those with asset sizes ranging from $100 million to $255 million located within the AA. Their average LTD ratio over the same time frame was 73 percent.

Lending in Assessment Area

A. J. Smith's lending in its AA is more than reasonable with a substantial majority of their lending inside the AA during the evaluation period. The majority of the number and dollar amount of home purchase loans were originated within the bank's AA. Lending inside the AA by number is 90 percent and 87 percent by dollar amount.

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

Loans Originated January 1, 2012 through September 30, 2014										
	Number of Loans					Dollars of Loans				
Loan Type	Inside		Outside		Total	Inside		Outside		Total $(000)
	#	%	#	%		$(000)	%	$(000)	%	
Residential Real Estate Purchase	43	88	6	12	100	6,745	76	2,154	24	8,899
Residential Real Estate Refinance	222	91	23	9	100	36,514	90	4,190	10	40,704
Totals	265	90	29	10	294	43,259	87	6,344	13	100

Source: HMDA data from January 1, 2012, through September 30, 2014.

Lending to Borrowers of Different Incomes

Lending to borrowers of different income levels in the AA is satisfactory during the evaluation period.

A. J. Smith's distribution of loans to low- and moderate-income borrowers from January 1, 2012, through September 30, 2014, reflects a reasonable penetration when compared to other AA lenders. Home purchase and home refinance loans made to low-income borrowers are below the aggregate industry lending percentage. Home purchase loans made to moderate-income borrowers are below the aggregate industry lending percentage. Home refinance lending to moderate-income borrowers is comparable to the demographics for the AA. Income constraints made it difficult for low-income borrowers in the AA to purchase or refinance home loans. In 2013, the FFIEC adjusted median family income was $73,400, and $73,000 for 2014, but unemployment rates have remained high. The annual area unemployment rate was 9.2 percent in 2012 and 8.8 percent in 2013 (*Bureau of Labor Statistics)*. These unemployment rates remain well above the national average of 6.7 percent for the same time frame. According to the 2010 Census data, the median home value was $260,000 and 33 percent of the housing units were rental units, which substantiates the difficulty to obtain home mortgage loans in the AA.

Borrower Distribution of Residential Real Estate Loans January 1, 2012 through September 30, 2014					
Borrower Income Level	% Total Thrift Loans		% of Loans by AA Lenders		% of AA Families by Income Level
Loan Type	Purchase	Refinance	Purchase	Refinance	
Low	5.88	5.19	12.07	6.35	25.59
Moderate	23.53	11.69	24.67	14.04	17.07
Middle	23.53	27.92	23.36	23.21	19.07
Upper	47.06	55.19	39.90	56.41	38.28

Source: 2010 U.S. Census data, HMDA loan data from January 1, 2012, through September 30, 2014, and 2012 peer mortgage data.

Geographic Distribution of Loans

A. J. Smith's geographic distribution of home mortgage loans reflects an adequate dispersion in geographies of different income levels throughout the AA.

The bank did not make any home purchase or home refinance loans in the low-income geographies during the evaluation period. Home purchase loans made in the moderate-income geographies well exceeds the aggregate industry lending percentage. Home refinance loans in the moderate-income geographies are well below the aggregate industry lending percentage. Opportunities to make home purchase and home refinance loans in the low- and moderate-income geographies are limited because less than 7 percent of the housing units in the low-income geographies, and less than 21 percent of the housing units in the moderate-income geographies are owner occupied. Competition in the AA is very strong from larger regional institutions. According to the FDIC Loan Market Share Report for the AA, A. J. Smith ranks 192nd out of 872 financial institutions with a market share of less than 1 percent. The top 25 institutions in this report are large regional institutions representing more than 70 percent of the AA's loan market share.

In addition, home refinance lending was negatively impacted as a result of the economic downturn in the housing market during the evaluation period. Average housing values in the bank's primary lending area dropped approximately 40 percent during the evaluation period. Therefore, it is reasonable to conclude lending opportunities were further reduced during the evaluation period.

Geographic Distribution of Residential Real Estate Loans January 1, 2012 through September 30, 2014					
Census Tract Income Level	% Total Thrift Loans		% of Loans by AA Lenders		% of AA Owner Occupied Housing Units
Loan Type	Purchase	Refinance	Purchase	Refinance	
Low	0	0	4.39	3.02	6.65
Moderate	17.65	5.84	14.15	9.66	20.47
Middle	29.41	41.56	33.79	27.97	34.14
Upper	52.94	52.60	47.67	59.35	38.75

Source: 2010 U.S. Census data, HMDA loan data from January 1, 2012, through September 30, 2014, and 2012 peer mortgage data.

Responses to Complaints

A. J. Smith 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 CFR 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.