



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 04, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Savings Bank of Frankfort
Charter Number 704381

216 West Main Street
Frankfort, Kentucky 40601-1806

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, 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 COMMUNITY REINVESTMENT ACT (CRA) RATING: Satisfactory

First Federal Savings Bank of Frankfort, Frankfort, Kentucky (First Federal) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- First Federal's loan-to-deposit ratio is more than reasonable.
- A majority of First Federal's loans were originated within its assessment area (AA).
- First Federal's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.

SCOPE OF THE EXAMINATION

First Federal was evaluated under the OCC's Small Bank CRA Examination Procedures. These procedures include a lending test to evaluate the Bank's record of meeting the credit needs of its AA through its lending activities.

The CRA evaluation period covers the time frame between November 5, 2007 and February 4, 2013. Conclusions regarding the Bank's lending performance are based on its primary loan product (residential mortgage loans) originated between January 1, 2010 and December 31, 2011.

DESCRIPTION OF THE INSTITUTION

First Federal is a federally chartered stock savings bank operating from three locations in Franklin County, Kentucky. The county seat in Franklin County is Frankfort, Kentucky's capital. Frankfort is located in central Kentucky near highway I-64.

As of September 30, 2012, First Federal reported \$137 million in total assets, \$107 million in total loans, \$84 million in deposits, and \$20 million in tier 1 capital.¹ First Federal's parent company is Frankfort First Bancorp (FFB), a mid-tier savings and loan holding company. FFB is wholly owned by Kentucky First Federal Bancorp (KFFB), which owns another savings and loan located in Hazard, Kentucky. The controlling shareholder of KFFB is First Federal Mutual Holding Company. The minority shareholders of KFFB own 45 percent of the company.

First Federal is a traditional thrift with lending primarily focused in residential mortgage loans for the purchase, refinance, improvement, and construction of one-to-four family dwellings. As September 30, 2012, net loans represented 77 percent of the institution's average assets. The loan portfolio mix is as follows: one-to-four family residential real estate loans (87 percent), multifamily properties (7 percent), non-farm non-residential properties (5 percent), and construction and development loans (1 percent). In 2010

¹ Effective January 1, 2013, Central Kentucky Federal Savings Bank (Danville, Kentucky) merged into First Federal.

and 2011, First Federal processed and sold approximately 18 loans, totaling \$3.8 million, to its sister savings and loan located in Hazard, Kentucky. The majority of these loans were made to families and individuals residing in First Federal's AA.

First Federal offers Automated Teller Machines (ATMs) and drive-up services at its East and West Frankfort branch locations. Branch locations are accessible to all segments of the community. No branches, ATMs, or drive-up services have been opened or closed since the last CRA examination.

There are no legal or financial circumstances affecting the institution's ability to meet the credit needs of the community. First Federal was rated satisfactory at its last CRA evaluation.²

DESCRIPTION OF THE ASSESSMENT AREA

First Federal's AA consists of Franklin County. Frankfort is the principal city within Franklin County. The county is located in central Kentucky, 31 miles from Lexington and 54 miles from Louisville, Kentucky's two most populous cities. The AA conforms to the regulatory requirements of the CRA, appears appropriate in relation to First Federal's office locations, and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census divides the AA into 10 census tracts (CTs), with zero low- and moderate-income tracts, one middle-income tract, and nine upper-income tracts. The determination was based on the Kentucky 2000 Median Family Income for a non-metropolitan statistical area of \$43,000.

The assessment area has a total population of 47,687, according to the 2000 U.S. Census. The 2000 population was comprised of 19,890 households. Approximately 5,401, or 27 percent, of these residences are low- or moderate-income households.

As of November 2012, Franklin County's 6.0 percent unemployment rate was lower than the State of Kentucky's 7.6 percent unemployment rate. The service industry is the primary industry in the AA, followed by retail, trade, finance, insurance, real estate, and public administration. Franklin County's leading employers are state and local government.

Competition from other financial institutions is moderate. Within the AA, there are 11 financial institutions with 22 offices, from small federal and state chartered community banks to branches of large regional banks. The total deposits of these banks range from \$492 thousand to \$407 million. As of June 30, 2012, these offices hold a combined \$883 million in deposits inside the AA. First Federal ranks third in the county with a 9.3 percent market share.

² The prior CRA examination was conducted by the Office of Thrift Supervision in November 2007.

A community contact involved with a Franklin County business and labor group indicated local banks are meeting the overall credit needs of the community.

The following additional demographic information is based on 2000 United States' Census data, unless otherwise noted.

| Demographic Information for Franklin County | | | | | | |
|---|----------|----------------------|-----------------|---------------|--------------|------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 10 | 0.00 | 0.00 | 10.00 | 90.00 | 0.00 |
| Population by Geography | 47,687 | 0.00 | 0.00 | 5.92 | 94.08 | 0.00 |
| Owner-Occupied Housing by Geography | 21,409 | 0.00 | 0.00 | 4.53 | 95.47 | 0.00 |
| Businesses by Geography | 5462 | 0.00 | 0.00 | 4.85 | 95.15 | 0.00 |
| Farms by Geography | 151 | 0.00 | 0.00 | 3.31 | 96.69 | 0.00 |
| Families by Income Level | 12,831 | 10.71 | 10.33 | 15.20 | 63.76 | 0.00 |
| Distribution of Low- and Moderate-Income Families throughout AA Geographies | 2,699 | 0.00 | 0.00 | 12.56 | 87.44 | 0.00 |
| Weighted Average Median Family Income | \$51,157 | Median Housing Value | | | | \$92,633 |
| HUD Updated Median Family Income for 2011 | \$43,000 | | | | | |
| Households Below the Poverty Level | 11.64% | | | | | |

(*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 U.S. Census and 2011 U.S. Department of Housing and Urban Development (HUD) estimated Median Family Income. These numbers were obtained directly from U.S. Census data and may not total exactly 100 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

First Federal's performance under the lending test is satisfactory.

First Federal's loan-to-deposit ratio is more than reasonable, and a majority of loan originations were inside its AA. The institution's borrower distribution reflects reasonable penetration of different borrower income-levels.

Loan-to-Deposit Ratio

First Federal's loan-to-deposit (LTD) ratio is more than reasonable given the thrift's size and financial condition and the assessment area's credit needs. The LTD ratio averaged 150.14 percent over the 20 quarters since the last CRA examination. The institution had a quarterly low of 121.62 percent and a quarterly high of 210.49 percent. First Federal's average LTD ratio exceeds other financial institutions of similar size, location, and product offerings.

Lending in the Assessment Area

A majority of First Federal's primary loan product was originated within its AA. The OCC reached this conclusion by analyzing 29 randomly selected residential mortgage loans originated between January 1, 2010 and December 31, 2011. The following table shows First Federal's lending in and out of the AA by number and dollars of loans based on the OCC loan sample. It shows 79 percent of the number or 74 percent of the dollars of residential loan originations were to borrowers inside the AA.

| Residential Loan Originations Between January 1, 2010 and December 31, 2011 | | | | |
|--|------------------------|----------------------------|-------------------------------------|------------------------------|
| | Number of Loans | Percentage of Loans | Dollar Amt. of Loans (000's) | Percentage of Dollars |
| Within the Assessment Area | 23 | 79 | 1,555 | 74 |
| Outside the Assessment Area | 6 | 21 | 549 | 26 |
| Totals | 29 | 100 | 2,104 | 100 |

Source: Randomly selected one-to-four family residential loans originated between January 1, 2010 and December 31, 2011.

Lending to Borrowers of Different Incomes

First Federal's distribution of one-to-four family residential loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels. First Federal's loan distribution to low- and moderate-income borrowers represented approximately 17 percent of all residential loan originations in the AA. The level fell slightly short of the low- and moderate-income combined demographic comparator of 21 percent. This difference is traceable to the fact that the median family income for Franklin County is much higher than the median family income for Kentucky as a whole. Using the Franklin County 2011 median family income of \$65,900, the loans in our sample showed 31 percent were made to low- and moderate-income borrowers, which exceeds the demographic comparator. Prior regulatory reports contained similar findings.

Given the number of home loans originated by First Federal, including those originated and sold to its sister bank in Hazard, Kentucky, the residential loan distribution to borrowers of different incomes is reasonable. The OCC reached this conclusion by analyzing 29 randomly selected residential mortgage loans located within the AA originated between January 1, 2010 and December 31, 2011.

The following table shows the distribution of one-to-four family residential home loans among borrowers of different incomes compared to the percentage of families in each income level.

| Borrower Distribution of Residential Real Estate Loans in Franklin County, Kentucky. | | | | | |
|---|--|--------------------------------|---|----------------------------------|--|
| Borrower Income Level | Loan Originations Between January 1, 2010 and December 31, 2011 | | | | Percent of Families within each Income Category |
| | Number of Loans | Percentage of Loans | Dollar Amount of Loans (000's) | Percentage of Dollars | |
| Low | 0 | 0 | 0 | 0 | 11 |
| Moderate | 5 | 17 | 143 | 7 | 10 |
| Middle | 4 | 14 | 181 | 8 | 15 |
| Upper | 20 | 69 | 1,779 | 85 | 64 |
| Total | 29 | 100 | 2,103 | 100 | 100 |

Source: Randomly selected one-to-four family residential loans originated in the AA between January 1, 2010 and December 31, 2011 and 2000 U.S. Census data.

Geographic Distribution of Loans

The focus of this analysis is to determine a bank's geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. Because the census tracts in Franklin County are designated either middle- or upper-income, an analysis of the First Federal's loan distribution by geography is not meaningful.

Responses to Complaints

First Federal did not receive any CRA related complaints 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 assessment area by an affiliate whose loans have been included in the assessment 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.