



PUBLIC DISCLOSURE

November 25, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First FSB of Washington
Charter Number 703932

439 South State Road 57
Washington, IN 47501

Office of the Comptroller of the Currency

2350 Market Street, Room 100
St. Louis, MO 63103

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 facts that support the rating of Satisfactory are as follows:

- The distribution of loans to individuals of different income levels is reasonable.
- The geographic distribution of loans is reasonable.
- The bank's quarterly average loan-to-deposit ratio is reasonable.
- A substantial majority of loans were originated or purchased within the bank's assessment area (AA).

SCOPE OF EXAMINATION

This Performance Evaluation of First FSB of Washington (FFSB) assesses its record of meeting the credit needs of the communities in which it operates. We evaluated FFSB under the Small Bank performance criteria.

The evaluation period is from September 4, 2007 through November 25, 2013. This evaluation period covers two census periods, i.e., 2000 and 2010. The census data changes had no material impact on the bank's CRA performance. See the Description of Assessment Area section on page two for further information. Conclusions regarding the bank's lending performance are based on FFSB's primary loan products: residential real estate (RRE) and consumer loans. The bank originated or purchased twice as many consumer loans as RRE loans during the sampling period. Therefore, we placed more weight on consumer loans than RRE loans for the borrower and geographic distribution of loans analysis.

FFSB is not subject to the Home Mortgage Disclosure Act (HMDA) reporting requirements. For our analysis, we selected a sample of both consumer and RRE loans that FFSB originated or purchased from January 1, 2011 through year-to-date (YTD) September 30, 2013.

DESCRIPTION OF INSTITUTION

FFSB is a federally chartered, mutual savings bank located in Washington, Indiana. FFSB does not have a holding company or any affiliates. As of September 30, 2013, FFSB reported total assets of \$79 million and Net Tier One Capital of \$9 million. FFSB's business strategy focuses on the origination of RRE loans and consumer loans. As of September 30, 2013, net loans and leases represented 52% of total assets and consisted of RRE loans (83%), commercial loans (7%), consumer loans (6%), and other loans (4%).

FFSB is an intrastate bank headquartered in Washington, Indiana with a branch office located in Loogootee, Indiana. Both offices are located in middle-income geographies. The office in Washington, Indiana has a cash withdrawal only automated teller machine (ATM) on the premises. There are no legal, financial, or other factors impeding FFSB’s ability to help meet the credit needs of the AA it serves.

FFSB was rated “Satisfactory” at its last CRA evaluation dated September 4, 2007.

DESCRIPTION OF ASSESSMENT AREA

FFSB’s AA consists of Daviess and Martin Counties in Indiana. The bank’s AA conforms to regulatory requirements and does not arbitrarily exclude low- and moderate-income geographies.

FFSB’s 2011 AA, based upon 2000 census data, had two moderate-income and eight middle-income geographies. The 2011 Department of Housing and Urban Development (HUD) adjusted statewide non-metropolitan area median family income for the AA was \$52,900. Twenty-one percent of families were low-income and another 21% were moderate-income, based upon 2000 census data. The following is additional demographic data for the AA.

DEMOGRAPHIC DATA FOR FFSB’S AA FOR 2000 CENSUS DATA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	10	0.00	20.00	80.00	0.00
Population by Geography	40,189	0.00	18.18	81.82	0.00
Owner-Occupied Housing by Geography	11,962	0.00	15.97	84.03	0.00
Business by Geography	3,813	0.00	18.10	81.90	0.00
Farms by Geography	358	0.00	5.03	94.97	0.00
Family Distribution by Income Level	10,821	20.82	20.73	26.34	32.11
Distribution of Low and Moderate Income Families throughout AA Geographies	4,496	0.00	22.86	77.14	0.00
Median Family Income		45,666	Median Housing Value		69,880
HUD Adjusted Median Family Income for 2011		52,900	Unemployment Rate (2000 US Census)		2.23%
Households Below Poverty Level		12%			

Source: 2000 US Census and 2011 HUD updated MFI

FFSB’s current AA, based upon 2010 census data, has one moderate-income geography, seven middle-income geographies, and two upper-income geographies. The 2013 Federal Financial Institutions Examination Council (FFIEC) estimated statewide non-metropolitan area median family income for the AA is \$52,700. Thirteen percent and 22% of families are low- and moderate-income, respectively, based on 2010 census data. The median housing value for the AA based on 2010 census data is \$97,215. The following is additional demographic data for the AA.

DEMOGRAPHIC DATA FOR FFBSB'S AA FOR 2010 CENSUS DATA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	10	0.00	10.00	70.00	20.00
Population by Geography	41,982	0.00	9.06	70.46	20.48
Owner-Occupied Housing by Geography	12,211	0.00	6.63	68.31	25.06
Business by Geography	3,604	0.00	5.74	68.26	26.00
Farms by Geography	367	0.00	2.18	76.02	21.80
Family Distribution by Income Level	10,513	13.41	22.35	26.08	38.16
Distribution of Low and Moderate Income Families throughout AA Geographies	3,760	0.00	6.36	69.31	24.33
Median Family Income		52,796	Median Housing Value		97,215
FFIEC Estimated Median Family Income for 2013		52,700	Unemployment Rate (2010 US Census)		2.64%
Households Below Poverty Level		12%			

Source: 2010 US Census and 2013 FFIEC updated MFI

In Daviess and Martin Counties, non-agricultural wage and salaried employment decreased from 19,687 in September 2007 to 19,001 in August 2013, a decrease of 3%. The unemployment rate increased from 3% to 6% during the same period. The state of Indiana unemployment rate was 8% as of August 2013. Major industries consist of services, followed by non-classified establishments and retail trade. Major employers include Naval Surface Warfare Center, Daviess Community Hospital, Perdue Farms Inc., Walmart Stores Inc., Indiana Log Homes Supply LLC, and Grain Processing Corporation. Nine percent and 8% of families lived below the poverty level based on 2000 and 2010 census data, respectively.

FFSB's deposits total \$68 million as of June 30, 2013. FFSB is the fourth largest deposit-taking institution in Daviess and Martin Counties with a 12% market share based upon FDIC deposit data. Competition for financial services is moderate with six other financial institutions located in the bank's AA. The three largest financial institutions consist of German American Bancorp, Old National Bank, and The First National Bank of Odon.

We contacted a representative from the Washington Housing Authority (WHA) who identified the following credit and non-credit related needs in the AA:

- Contributions to non-profit organizations that provide social services to low- and moderate-income individuals.
- Additional job training for low- and moderate-income individuals.
- Flexible credit underwriting to meet the affordable housing needs of low- and moderate-income individuals.
- Small consumer loans of \$500 or less.
- Subsidized public housing for low- and moderate-income families. There is a one- to two-year waiting list for the WHA's one- to three-bedroom duplexes.
- Grants to fund home improvement projects for low-income individuals.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FFSB's loan-to-deposit (LTD) ratio is reasonable given the institution's size, current competition, its financial condition, AA credit needs, and its business strategy.

As of September 30, 2013, FFSB's LTD ratio was 60%. The bank's quarterly average of LTD ratios since the last CRA evaluation was 78%. This ratio is higher than two and lower than four comparable financial institutions. The average LTD ratios of these financial institutions, which are comparable in size and location, range from 42% to 102% for the same period.

Lending in Assessment Area

FFSB originated or purchased a substantial majority (98.8%) of loans inside its AA. Based on our sample of RRE and consumer loans, 100% and 97.5% of loans were originated or purchased within the bank's AA, respectively.

Lending in Daviess and Martin Counties										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total (\$)
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	40	100%	0	0%	40	\$3,220	100%	\$0	0%	\$3,220
Consumer	39	97.5%	1	2.5%	40	387	99.7%	1	0.3%	388
Totals	79	98.8%	1	1.2%	80	\$3,607	100%	\$1	0%	\$3,608

Source: RRE and consumer loan data sampled from January 1, 2011 through YTD 2013. Sample consisted of 20 loans from 2011 and 20 loans from 2012 through YTD 2013 for both RRE and consumer loans.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FFSB's lending distribution of RRE and consumer loans to borrowers of different income levels reflects reasonable distribution. As previously stated, we placed more weight on consumer loans than RRE loans.

Residential Real Estate Loans

The borrower distribution of RRE loans is reasonable.

In 2011, the percentage of loans to low-income borrowers (10%) exceeded the aggregate market percentage for low-income borrowers (8%) and was lower than the percentage of AA families who were low-income (21%). The percentage of loans to moderate-income borrowers (15%) was somewhat lower than the aggregate market percentage for moderate-income borrowers (21%) and the percentage of AA families who were moderate-income (21%).

In 2012 and YTD 2013, FFBSB did not originate or purchase any loans to low-income borrowers. The percentage of loans to moderate-income borrowers (23%) exceeded the aggregate market percentage for moderate-income borrowers (20%) and the percentage of AA families who are moderate-income (22%).

Borrower Distribution of Residential Real Estate Loans in Daviess and Martin Counties												
Borrower Income Level	Low		Moderate		Middle		Upper		Aggregate Lending Data*			
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***	Low	Mod	Mid	Upp
2011 RRE	21%	10%	21%	15%	26%	20%	32%	55%	8%	21%	24%	47%
2012-YTD 2013 RRE	14%	0%	22%	23%	26%	25%	38%	52%	6%	20%	24%	50%

*Based on 2011 and 2012 Peer Mortgage Data (USPR).

** Percentage of Families is based on the 2000 and 2010 U.S. Census data.

***Source: Sample of 20 loans from 2011 and 40 loans from 2012 through YTD 2013.

Consumer Loans

The borrower distribution of consumer loans is reasonable.

In 2011, the percentage of loans to low-income borrowers (10%) was significantly lower than the percentage of AA households that were low-income (26%). The percentage of loans to moderate-income borrowers (20%) exceeded the percentage of AA households that were moderate-income (19%).

In 2012 and YTD 2013, the percentage of loans to low-income borrowers (5%) was significantly lower than the percentage of AA households that are low-income (19%). The percentage of loans to moderate-income borrowers (45%) significantly exceeded the percentage of AA households that are moderate-income (19%).

Borrower Distribution of Consumer Loans in Daviess and Martin Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans 2011	26%	10%	19%	20%	21%	25%	34%	45%
Consumer Loans 2012-YTD 2013	19%	5%	19%	45%	22%	5%	40%	45%

Source: Sample consists of 40 loans from 2011 and 20 loans from 2012 through YTD 2013, and 2000 and 2010 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable distribution. FFBSB originated or purchased loans in all geographies within its AA. There were no low-income geographies in the AA for both census periods.

Residential Real Estate Loans

The geographic distribution of RRE loans is more than reasonable.

In 2011, the percentage of loans in moderate-income geographies (25%) significantly exceeded the aggregate market percentage for moderate-income geographies (14%) and the percentage of owner-occupied housing units (16%) in those geographies. In 2012 and YTD 2013, the percentage of loans in moderate-income geographies (10%) significantly exceeded the aggregate market percentage for moderate-income geographies (5%) and exceeded the percentage of owner-occupied housing units in those geographies (7%).

Geographic Distribution of Residential Real Estate Loans in Daviess and Martin Counties												
Census Tract Income Level	Low		Moderate		Middle		Upper		Aggregate Lending Data*			
	% 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	Low	Mod	Mid	Upp
Loan type												
2011 RRE loans	NA	NA	16%	25%	84%	75%	0%	0%	0%	14%	86%	0%
2012-YTD 2013 RRE	NA	NA	7%	10%	68%	60%	25%	30%	0%	5%	66%	29%

* Based on 2011 and 2012 Peer Mortgage Data (USPR).

** The percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 and 2010 Census data.

*** Data shown includes only One to Four-family and manufactured housing. The loan sample consisted of 20 loans from 2011 and 20 loans from 2012 through YTD 2013.

Consumer Loans

The geographic distribution of consumer loans is reasonable.

In 2011, the percentage of loans in moderate-income geographies (30%) significantly exceeded the percentage of households in those geographies (20%). In 2012 and YTD 2013, the percentage of loans in moderate-income geographies (5%) was lower than the percentage of households in those geographies (9%).

Geographic Distribution of Consumer Loans in Daviess and Martin Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans 2011	NA	NA	20%	30%	80%	70%	0%	0%
Consumer Loans 2012-YTD 2013	NA	NA	9%	5%	68%	55%	23%	40%

Source: 20 loans from 2011 and 20 loans from 2012 through YTD 2013, 2000 and 2010 U.S. Census data.

Responses to Complaints

No CRA-related complaints have been received by the bank or the OCC since the prior CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.