

PUBLIC DISCLOSURE

February 28, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Piedmont FS & LA of Gaffney
1229 W Floyd Baker Blvd
Gaffney, South Carolina 29341-1413
Docket #: 02502**

**Office of Thrift Supervision
Southeast Region
1475 Peachtree Street, N.E.
Atlanta Georgia 30309**

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.



Office of Thrift Supervision
Department of the Treasury

Southeast Region

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May 24, 2011

Board of Directors
First Piedmont FS & LA of Gaffney
1229 W Floyd Baker Blvd
Gaffney, South Carolina 29341-1413

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of February 28, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Valorie Owen
Senior Compliance Review Examiner

Enclosure

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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First Piedmont FS & LA of Gaffney. The Office of Thrift Supervision (OTS) prepared the evaluation as of February 28, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: "Satisfactory Record of Meeting Community Credit Needs."

First Piedmont maintained a high loan to deposit (LTD) ratio throughout the review period surpassing institutions similar in size. For the preceding 15 quarters ending December 31, 2010, First Piedmont's average LTD ratio was 113.9 percent.

The institution originated 97.3 percent of its loans within the assessment area. This represents a significant majority both in the number of loans and dollar volume. In addition, it shows the institution is effectively serving the community within its assessment area.

First Piedmont's percentage of loans granted to borrowers of different income levels was reasonable in comparison to demographic and peer lending benchmarks. The Institution offers several products designed to meet the credit needs of low- and moderate-income (LMI) individuals. Also, the Institution provides credit to organizations that provide housing or housing maintenance to LMI borrowers.

Finally, the Institution's record of lending in LMI census tracts was deficient in comparison to the percentage of owner-occupied housing availability and peer lending benchmarks. This lack of penetration may be somewhat attributable to the absence of branch offices in LMI geographies and competition from other lenders in the assessment area.

Scope of Examination

At the preceding CRA evaluation performed as of September 24, 2007, First Piedmont received a CRA rating of "Satisfactory Record of Meeting Community Credit Needs." The time period reviewed for this evaluation is from January 1, 2008 through December 31, 2010. Products reviewed include purchase loans, refinance loans, home improvement loans and home equity lines of credit originated during this period. The 2000 census data provided benchmarks for an analysis of the Institution's 2008, 2009, and 2010 mortgage lending activity.

Institution (continued)

Description of Institution

First Piedmont is a federally-chartered, mutual savings association with six branches and a total asset size of \$279 million as of December 31, 2010. The Institution’s headquarters and two other full service branch offices are located in Cherokee County, South Carolina. The other three full service branches are located in adjoining Spartanburg County, South Carolina. All six branches are open between 8:30 a.m. to 5:00 p.m. Monday through Friday. Each branch has a drive-thru with operating hours of 8:00 a.m. to 5:00 p.m. Monday through Thursday, and until 6:00 p.m. on Friday. The main office is the only branch open on Saturdays with lobby and drive thru hours of 8:45 a.m. to 12:00 p.m. All branches include an onsite Automated-Teller Machine (ATM). First Piedmont also has a free-standing ATM only located at 859 Hyatt Street in Gaffney, South Carolina.

First Piedmont operates as a traditional savings association offering residential mortgage loans and various deposit products. Based on the December 31, 2010, OTS Thrift Financial Report, residential mortgage loans represent 44 percent of total assets and are the largest component of the Institution’s loan portfolio. The following table summarizes the components of the loan portfolio:

FIRST PIEDMONT FEDERAL SAVINGS & LOAN ASSOCIATION LOAN PORTFOLIO AS OF DECEMBER 31, 2010			
Loan Type	Amount (\$000s)	% of Loan Portfolio	% of Total Assets
Residential	\$ 122,984	58.54%	44.02%
Nonresidential	\$ 65,821	31.33%	23.56%
Land	\$ 10,961	5.22%	3.92%
Commercial	\$ 3,281	1.56%	1.17%
Consumer	\$ 7,034	3.35%	2.52%
Loan Portfolio	\$ 210,081	100.00%	75.19%
Total Assets	\$ 279,390		

First Piedmont offers conventional fixed- and variable-rate mortgage loans, construction loans, subordinate lien mortgage loans and revolving equity lines of credit. Consumer loans are offered on a fixed-rate basis. Commercial loans are available with fixed- and variable-rates as well as fixed-rate with a balloon period.

The Institution offers a number of deposit products such as a No Fee Checking Account. This free checking account is not specifically targeted to LMI individuals but the account’s features make it affordable for LMI individuals to maintain a checking account. First Piedmont also offers a NOW checking account, money market accounts, investment and high yield checking accounts. In addition, business checking accounts are also available. According to retail deposit data as of June 30, 2010,

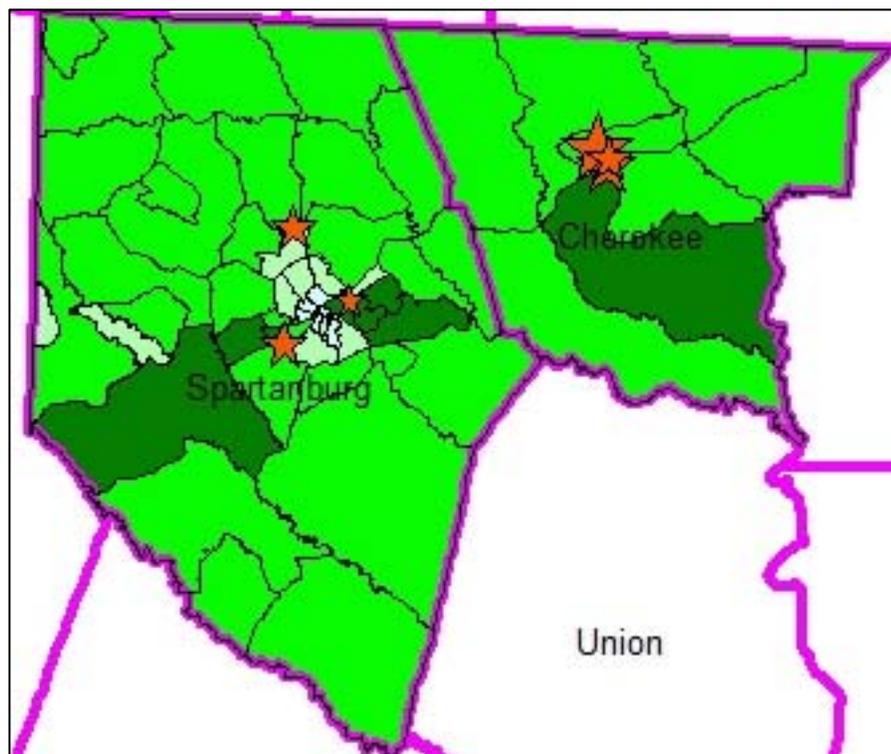
Institution (continued)

from the Federal Deposit Insurance Corporation (FDIC), First Piedmont’s retail deposits totaled approximately \$207.8 million.

While there are no legal or regulatory impediments that adversely affected First Piedmont’s ability to meet community credit needs, the Institution does face considerable competition from several large banks such as Bank of America, Wells Fargo Bank and Suntrust Bank. Based on the FDIC’s deposit market information as of June 30, 2010, there were 19 other federally insured depository institutions operating 85 branch offices in Cherokee and Spartanburg Counties. Compared to the other 19 institutions, First Piedmont had a market share of 3.92 percent whereas the larger institutions previously mentioned held market shares in the double digits and had a larger number of branch offices.

Description of Assessment Area

First Piedmont’s assessment area includes Spartanburg County and Cherokee County. Spartanburg County is part of the Spartanburg, SC Metropolitan Statistical Area (MSA). However, adjoining Cherokee County is not located in an MSA. Spartanburg County contains 51 census tracts (CTs) and Cherokee County contains 9 CTs. Of the 60 CTs, 8 are upper-income, 36 are middle-income, 10 are moderate-income and 6 are low-income tracts. Cherokee County does not contain any LMI tracts, but Spartanburg County contains 16 LMI tracts. The majority of the deposits derive from Cherokee County while the majority of the lending is originated throughout Spartanburg County. The map below provides a visual of the assessment area. There are four shades of green; the darker the shade of green the higher the income level within that tract. The red stars represent branches; the larger the star the greater the amount of deposits received at that branch.



Institution (continued)

Based on data compiled from the 2000 Census (updated for 2010), the total population in the assessment area was 306,328. There was a total of 129,386 housing units of which 66.1 percent were owner-occupied and 8.6 percent were vacant. The following demographic data for the assessment area was obtained from the 2000 Census data:

FIRST PIEDMONT FEDERAL SAVINGS & LOAN ASSOCIATION				
DEMOGRAPHIC INFORMATION				
2000 CENSUS				
Demographics of Census Tract			Family Distribution	
Census Tract Income Category	Distribution of Population	Owner Occupied Housing Units	Income Category	Distribution of Families
Low	3.78%	1.55%	Low	19.95%
Moderate	13.21%	10.32%	Moderate	18.24%
Middle	67.93%	71.71%	Middle	22.47%
Upper	15.07%	16.42%	Upper	39.34%
Total	100.00%	100.00%	Total	100.00%

The updated median family income (MFI) figures as provided by the Department of Housing and Urban Development for the Spartanburg MSA for 2008, 2009 and 2010, were \$54,000, \$55,100 and \$55,900, respectively. The MFI figures for the non-metropolitan areas of South Carolina, including Cherokee County, for 2008, 2009 and 2010 were \$46,500, \$48,400 and \$49,100, respectively. The total number of families living in the assessment area was approximately 84,491 of which 16,857 of those families were considered low-income families. Low-income means the family income is less than 50 percent of the updated median family income of the MSA or non-MSA. Of the 16,857 low-income families living within the assessment area, 8,017 or 47.6 percent are families living below the poverty level.

Local economic conditions within the assessment area have been relatively unstable. There have been major reductions in the workforce by many major employers. The area's major employers include Timken Company, Nestle Frozen Foods, Freightliner, BMW, Milliken, the local school districts and the regional medical centers. Based on data provided by the U.S. Department of Agriculture (USDA), the unemployment rate recorded for Cherokee County for 2008 and 2009 was 9.1 percent and 16.4 percent, respectively. In Spartanburg County, unemployment in 2008 and 2009 was 6.9 percent and 12.4 percent, respectively. In 2009, both counties experienced a significant jump in unemployment, affecting the Institution's overall lending abilities.

Institution (continued)

Conclusions with Respect to Performance Tests

Loan to Deposit Ratio

Based upon the information compiled from the previous 15 OTS Thrift Financial Reports, the examiner calculated an average LTD ratio of 113.9 percent during the review period. This ratio reflects a strong volume of lending in relationship to similarly sized savings associations within the Southeast Region of the OTS.

	Peer	First Piedmont		Peer	First Piedmont
Jun-07	96.92%	120.19%	Jun-09	92.54%	109.07%
Sep-07	97.92%	122.92%	Sep-09	93.17%	112.29%
Dec-07	98.01%	121.80%	Dec-09	92.44%	111.90%
Mar-08	95.82%	119.14%	Mar-10	90.53%	109.42%
Jun-08	96.88%	117.87%	Jun-10	89.81%	106.71%
Sep-08	99.97%	117.07%	Sep-10	87.45%	107.35%
Dec-08	98.91%	118.18%	Dec-10	86.23%	103.69%
Mar-09	94.55%	111.64%	AVG	94.10%	113.90%

The examiner concludes that the Institution’s loan-to-deposit ratio exceeds the standards for satisfactory performance for this criterion.

Lending within the Assessment Area

After reviewing First Piedmont’s Loan/Application Register (LAR) for calendar years 2008 through 2010, the examiner determined that the Institution originated 1,175 mortgage loans totaling approximately \$161.9 million. Of the total loans originated, 97.28 percent were secured by properties located inside the assessment area. The results of this analysis are shown below:

Assessment Area	No. of Loans	Percent	Volume (\$000s)	Percent
Inside	1,143	97.28%	\$156,263	96.50%
Outside	32	2.72%	\$5,664	3.50%
Total	1,175	100.00%	\$161,927	100.00%

Based on the figures above, the examiner concludes that First Piedmont’s record of lending within the assessment area exceeds the standards for satisfactory performance for this criterion.

Institution (continued)

Lending to Borrowers of Different Income Levels

First Piedmont’s record of lending to borrowers of different income levels within the assessment area was compared to demographic characteristics and aggregate HMDA lending patterns.

The results of this analysis are illustrated in the following table:

FIRST PIEDMONT FEDERAL SAVINGS & LOAN ASSOCIATION 2008, 2009 & 2010 COMBINED HMDA LENDING IN ASSESSMENT AREA					
Borrower Income Level	No.	No. %	Volume (\$000s)	% of Volume	Distribution of Families
Low (<50%)	60	5.49%	\$ 4,257	2.86%	19.95%
Moderate (50-79%)	156	14.27%	\$ 13,233	8.89%	18.24%
Middle (80-119%)	230	21.04%	\$ 24,041	16.15%	22.47%
Upper (>120)	647	59.19%	\$ 107,364	72.11%	39.34%
Total	1,093	100.00%	\$ 148,895	100.00%	100.00%

Although First Piedmont’s lending to low-income borrowers was below the percentage of low-income families, it was reasonable given the poverty rate among low-income families. As previously mentioned, 47.6 percent of low-income families are living below the poverty level. This factor would most likely preclude these families from homeownership. First Piedmont’s lending to moderate-income borrowers did approximate the percentage of moderate-income families within the assessment area.

The table below compares the bank’s figures to other lenders within the assessment area:

FIRST PIEDMONT FEDERAL SAVINGS & LOAN ASSOCIATION 2008 & 2009 COMBINED HMDA LENDING IN ASSESSMENT AREA			
Borrower Income Level	First Piedmont % of No.	Other Lenders % of No.	Distribution of Families
Low (<50%)	5.80%	8.05%	19.95%
Moderate (50-79%)	12.15%	21.18%	18.24%
Middle (80-119%)	21.41%	23.76%	22.47%
Upper (>120)	60.64%	47.01%	39.34%
Total	100.00%	100.00%	100.00%

When compared to the peer aggregate HMDA data, First Piedmont’s 5.80 percent approximates the peer’s 8.1 percent. The figures in the table above show a combined figure of First Piedmont’s performance in 2008 and 2009. However, it is important to mention that First Piedmont improved significantly from 2008 to 2009. When considering the Institution’s market share of lending to LMI

Institution (continued)

borrowers within the assessment area, it increased from 1.18 percent in 2008 to 2.25 percent in 2009. Again, First Piedmont faces serious competition from much larger institutions such as Bank of America, Wells Fargo Bank, JP Morgan Chase Bank and Suntrust Bank who continuously top the market share list. These institutions are larger in size and have more branches and resources which allow them to reach more borrowers throughout the assessment area. In addition, other non-bank mortgage lenders such as Embrace Home Loans, Inc. and Franklin American Mortgage Company, target LMI borrowers and present additional competition for First Piedmont.

The Institution’s lending to moderate-income borrowers was reasonable in relationship to both demographic and peer benchmarks. Based on the data above, the examiner determined that First Piedmont’s overall level of lending to borrowers of different income levels meets the standard for satisfactory performance for this criterion.

Geographic Distribution

The examiner also reviewed First Piedmont’s lending record to determine the geographic distribution of mortgage loans originated by the Institution within the assessment area during calendar years 2008, 2009 and 2010. The distribution was compared to the distribution of owner-occupied housing units (O.O.H.U.) throughout the assessment area’s low-, moderate-, middle-, and upper-income census tracts.

The results of the geographical analysis are presented in the following table:

FIRST PIEDMONT FEDERAL SAVINGS & LOAN ASSOCIATION 2008, 2009 & 2010 COMBINED DATA IN ASSESSMENT AREA					
Income Level of Census Tract	* No.	No. Pct.	Dollar (\$000s)	\$ Pct.	% O.O.H.U
Low (<50%)	2	0.18%	\$ 57	0.04%	1.55%
Moderate (50-79%)	24	2.12%	\$ 1,740	1.13%	10.32%
Middle (80-119%)	853	75.49%	\$ 114,963	74.74%	71.71%
Upper (>120)	251	22.21%	\$ 37,047	24.09%	16.42%
Total	1,130	100.00%	\$ 153,807	100.00%	100.00%

During the review period, the substantial majority of First Piedmont’s loans were concentrated in middle-income census tracts. This distribution can be attributed to the fact that of the 60 census tracts that make up the assessment area, 36 tracts or 60 percent, are middle-income census tracts. During the review period, First Piedmont’s penetration of low- and moderate-income census tracts was significantly below the percentage of owner-occupied housing units in these tracts.

Institution (continued)

In addition, First Piedmont’s lending record was compared to the most recent peer aggregate HMDA data from 2009. This aggregate data reflects the lending activity of other lenders subject to HMDA reporting requirements which originated loans within the assessment area.

The results of this analysis are illustrated in the following table:

FIRST PIEDMONT FEDERAL SAVINGS & LOAN ASSOCIATION 2008 & 2009 COMBINED HMDA LENDING IN ASSESSMENT AREA			
Income Level of Census Tract	First Piedmont % of No.	Other Lenders % of No.	% O.O.H.U.
Low (<50%)	0.27%	0.83%	1.55%
Moderate (50-79%)	2.42%	7.36%	10.32%
Middle (80-119%)	77.15%	68.31%	71.71%
Upper (>120)	20.16%	23.50%	16.42%
Total	100.00%	100.00%	100.00%

During the review period, of the 1,143 loans originated in the assessment area, 643 or 56.3 percent were secured by properties located in Spartanburg County. As previously mentioned, Cherokee County has no LMI tracts while Spartanburg has 6 low-income and 10 moderate-income tracts.

The figures in the table above show that First Piedmont’s level of lending in LMI tracts fell below that of other HMDA lenders in the assessment area. First Piedmont’s inability to effectively reach LMI areas may be due to its lack of branch offices in LMI geographies.

An analysis of 2009 Market Share data for originations in LMI tracts, showed First Piedmont ranked seventh out of 25 institutions lending within the assessment area. The top four institutions with the highest market shares were BB&T, Wells Fargo Bank, Bank of America and JP Morgan Chase, respectively. These four institutions are much larger than First Piedmont; they have more branches and overall resources. The two institutions that ranked fifth and sixth place had market shares of 3.85 percent and 3.45 percent, which were close in relation to First Piedmont’s 3.04 percent. This data reaffirms that First Piedmont shares the market with highly competitive institutions as it continues to struggle for a piece of the market share.

Although there may be mitigating factors that may explain the Institution’s inability to effectively reach LMI areas, there is still room for improvement. First Piedmont’s performance with respect to this criterion does not meet standards for satisfactory performance.

Institution (continued)

Community Development Services

The Institution offers several products designed to help meet the credit needs of LMI individuals. First Piedmont continues to participate in the Freddie Mac Homes Possible loan program. The Institution also provides FHA and USDA loans. The Institution has originated two multifamily rental properties that qualify under the U.S. Department of Housing and Urban Development's (HUD) Section 8 housing program.

First Piedmont provides a line-of-credit to Home Rehabilitation of Cherokee County (HRCC). HRCC rehabilitates homes to sell as low-cost, low-income housing. HRCC also provides assistance in maintaining existing homes of low-income individuals. The Institution also services approximately 40 loans originated by the Cherokee County Chapter of Habitat for Humanity (CCHH), free of charge. This includes collecting payments, sending late notices, administering escrows, and providing monthly reports to CCHH. Finally, the Institution continues to work with the South Carolina State Housing and Finance Authority in a joint effort to provide affordable housing.

Fair Lending or Other Illegal Credit Practices Review

Record of Compliance with Anti-Discrimination Laws & Regulations

No substantive violations of the antidiscrimination laws and regulations or other illegal credit practices were identified at First Piedmont's most recent compliance examination.

Response to Community Complaints

No complaints concerning First Piedmont's performance in meeting the credit needs of the assessment area have been received since the preceding evaluation.

CRA Rating Definitions

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.