



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**May 21, 2012**

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

Home Federal Savings & Loan Association  
Charter Number 704246

1500 Carter Ave  
Ashland, Kentucky 41101-7630

Office of the Comptroller of the Currency

Virginia Field Office  
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**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 Lending Test is rated: Satisfactory.**

The Home Federal Savings and Loan Association ( hereinafter referred to Home FS & LA) maintains a satisfactory record of helping to meet the credit needs of its assessment area (AA) in a manner consistent with its resources and capabilities. The following is a summary of the evaluation findings:

- The institution's average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated institutions.
- A majority of the loans originated during the evaluation period were inside the institution's assessment areas (AAs).
- The distribution of borrowers, given the demographics of the AAs, reflects an overall reasonable dispersion and satisfactory performance.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- Home FS & LA has not received any CRA complaints during this evaluation period.

**SCOPE OF EXAMINATION**

This Performance Evaluation assesses the institution's performance under the Lending tests for Small Banks. The lending test evaluates the institution's record of meeting the credit needs of its AA through its lending activities.

The evaluation period under the lending test covers the institution's performance from January 1, 2009 through December 31, 2011, as this is representative of its lending strategy since the last CRA examination.

Home FS & LA's primary loan product is home mortgage loans. Home FS & LA reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, we tested the accuracy of the institution's HMDA data. Significant errors were identified at the time. Subsequent corrective actions were since taken by the institution to ensure the data was accurate and could be relied upon. Therefore, we utilized the HMDA data from January 1, 2009 through December 31, 2011 for this evaluation.

**DESCRIPTION OF INSTITUTION**

Home FS & LA is an intrastate institution, established in 1937, with its main office headquartered in Ashland, Kentucky. The institution is solely owned by Poage Bankshares, Inc., a \$319 million single-institution holding company. Shares of Poage Bankshares, Inc. common stock are traded on the NASDAQ Exchange under the symbol "PBSK."

Home FS & LA is a full service thrift institution, with six branches and six automated teller machines (ATMs) serving the counties of Boyd and Greenup counties in Kentucky; and Louisa, Kentucky located in Lawrence County Kentucky. The main office and three branch offices in Boyd and Greenup counties are located in middle- income census tracts and the fourth branch office is located in an upper-income census tract. The branch office in Louisa, Kentucky is located in a middle income census tract.

The institution's primary focus is on retail banking. All offices of Home FS & LA offers a variety of deposit and loan products to meet consumer and mortgage banking needs. The institution's Internet website, <http://www.hfsl.com> provides detailed information on the products and services for both consumers and businesses. Banking services are standard, with the addition of on-line banking and 24-hour telephone banking.

As of March 31, 2012, Tier One Capital was \$43 million, Tier One Risk-based Capital to Risk-weighted Assets equaled 27.3 percent, and Tier One Leverage Capital equaled 13.6 percent. Home FS & LA's net loans totaled \$179 million, or 56.18 percent of total assets (\$319 million) and total deposits were \$250 million, or 78.32 percent of total assets. **Table 1** depicts the loan portfolio by loan product as of March 31, 2012.

<b>TYPE OF LOAN</b>	<b>Balance Outstanding (\$000s)</b>	<b>% OF TOTAL LOANS</b>
1-4 Family Residential	154,835	85.92%
Loans to Individuals	10,496	5.82%
Non-Farm/Non-Residential	9,075	5.04%
Commercial & Industrial	3,109	1.73%
Construction & Land Dev	\$ 1,632	0.91%
Multi-family Residential	1,042	0.57%
Other	18	0.01%
<b>Total</b>	<b>\$180,207</b>	<b>100%</b>

\*Schedule RC-C Part 1 - Loans and Leases as reported in the Consolidated Reports of Condition and Income as of March 31, 2012.

From a review of FDIC Summary of Deposits as of last annual date (June, 2011) for each AA, Home FS & LA holds 4.9 percent of the deposit market share in the Huntington-Ashland WV-KY-OH MSA AA, ranking 8th out of 26 institutions; and holds 23.7 percent market share in the Louisa Kentucky non-MSA AA, ranking 3rd out of four institutions. The leading competitors in the market are large national and state banks.

Competitors include City National Bank, ranked fourth with a 6.6 percent market share; PNC Bank, NA ranked fifth, with 7 percent market share; Community Trust Bank, ranked seventh with a 5.3 percent market share; and Fifth Third Bank ranked ninth with a 4.7 percent market share.

There are no legal, financial or other factors impeding Home FS & LA's ability to help meet the credit needs in its AAs. Home FS & LA received a "Satisfactory" rating on its October 2006 CRA Performance Evaluation.

## DESCRIPTION OF ASSESSMENT AREA(S)

### Huntington-Ashland WV-KY-OH MSA 26580

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	19	0.00	10.53	57.89	31.58	0.00
Population by Geography	86,643	0.00	7.47	56.31	36.22	0.00
Owner-Occupied Housing by Geography	26,475	0.00	5.30	57.71	36.99	0.00
Business by Geography	8,038	0.00	7.37	56.43	36.20	0.00
Farms by Geography	168	0.00	5.95	52.98	41.07	0.00
Family Distribution by Income Level	25,417	19.64	15.87	20.21	44.27	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	9,027	0.00	9.94	62.61	27.45	0.00
Median Family Income		37,119	Median Housing Value		63,274	
HUD Adjusted Median Family Income for 2011		49,600	Unemployment Rate (2000 US Census)		3.39%	
Total Households		34,631				
Households Below Poverty Level		15%				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census and 2011 HUD updated MFI

This AA consists of two contiguous counties, Boyd and Greenup Counties in Kentucky, within the Huntington-Ashland MSA. Home FS & LA designated all 19 census tracts in Boyd and Greenup Counties as its AA. This assessment area consists of two moderate-income tracts, eleven middle-income tracts, and six upper-income tracts. There are no low-income tracts and no designated distressed or underserved middle-income tracts in this assessment area. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Demographic data for the AA from the 2000 United States Bureau of the Census reports, as presented in **Table 2**, indicates the institution's assessment area comprises 34,631 households and 25,417 families. Of the total households within the assessment area, 12.51 percent (2,630) are below the poverty level, which is lower than the national average of 13.8 percent for 2010.

The Huntington-Ashland AA is nestled along the banks of the Ohio River within the Appalachian Plateau region. While much of this AA is rural, the economy is fairly diverse with light manufacturing, retail trade, service businesses, government, and higher education. Huntington is effectively a regional medical community - the two hospitals, St. Mary's Medical Center and Cabell-Huntington Hospital, are the largest

employers. Other large employers are Marshall University and Marathon Ashland Petroleum.

Ashland is the second largest city within the MSA, after Huntington. Ashland serves as an important economic and medical center for northeast Kentucky. Kings Daughter's Medical Center, the fourth largest medical center in Kentucky, is the city's biggest employer with over 4,000 employees.

As of March 31, 2012, the unemployment rate for this MSA was 7.5 percent, which was below the average for the State of Kentucky of 8.6 percent and below the national average of 8.2 percent. (Source: Bureau of Labor Statistics website.)

During the examination, we reviewed one community contact conducted in 2012. The organization is a typical network of businesses, individuals and local organizations whose goal is to further the interests of businesses in Ashland, Kentucky. Its aim is to promote economic development and regional growth between the neighboring counties. The area has an acute need for affordable housing and other necessary social services because of high levels of poverty and the impact of the recession. The contact indicated that financial institutions have an opportunity to play significant roles in addressing these social problems.

**Louisa KY Census Tract Non-MSA AA**

<b>TABLE 3</b> Demographic Information for Limited Scope Area: Louisa KY (CT 9901) Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1	0.00	0.00	100.00	0.00	0.00
Population by Geography	6,625	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	1,849	0.00	0.00	100.00	0.00	0.00
Business by Geography	801	0.00	0.00	100.00	0.00	0.00
Farms by Geography	13	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	1,901	27.30	18.52	16.04	38.14	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	871	0.00	0.00	100.00	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2011		32,884		Median Housing Value		49,300
Total Households		43,000		Unemployment Rate (2000 US Census)		4.35%
Households Below Poverty Level		5,950 26%				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census and 2011 HUD updated MFI

This AA consists of one middle-income tract in Lawrence County, Kentucky where Home FS & LA has a branch office. This census tract is a designated distressed or

underserved tract due to the rural geography and high level of households below poverty level. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Demographic data for the AA from the 2000 United States Bureau of the Census reports, as presented in **Table 3**, indicates the institution's assessment area comprises 2,588 households and 1,901 families. Of the total households within the assessment area, 25.53 percent (661) are below the poverty level which is well above the national average of 13.8 percent for 2010.

Louisa, located in Lawrence County, Kentucky is in Kentucky's Appalachian Region. The Appalachian Region's economy, once highly dependent on mining, forestry, agriculture, chemical industries, and heavy industry, has become more diversified in recent times, and now includes manufacturing and professional service industries. The area's largest employers are the Lawrence County Board of Education, Three Rivers Medical Center, Walmart Supercenter, American Electric Power Co., and Brown's Food Service, as well as other medical, municipal, and educational systems.

As of March 31, 2012, the unemployment rate for Lawrence County, Kentucky was 10.7 percent, which was above the average for the State of Kentucky of 8.6 percent and above the national average of 8.2 percent. (Source: Bureau of Labor Statistics website.)

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The performance under the Lending Test is considered "Satisfactory." The institution's loan-to-deposit ratio is reasonable, and a majority of loans are originated inside the assessment area. The institution's borrower distribution reflects reasonable penetration among borrowers of different incomes. Geographic distribution reflects reasonable dispersion throughout the census tracts of different income levels. Home FS & LA has not received any CRA complaints during this evaluation period.

Home FS & LA's rating is based on the institution's performance in the two assessment areas in Kentucky. The distribution of loans by income level of the borrower received greater consideration than the distribution of loans by income level of the geography. This is due to the limited number of moderate-income tracts in the AAs. There are no low-income tracts in the AAs, two moderate-income tracts, and 36 percent of the families in the AAs live in low- and moderate-income tracts in the AAs.

### **Loan-to-Deposit Ratio**

Home FS & LA's quarterly average net loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and credit needs of the AAs. Home FS & LA's LTD ratio meets the standards for satisfactory performance. The institution's quarterly average net LTD ratio for the twenty-one consecutive quarters since the last CRA examination is 66.89 percent. During this time period, the ratio ranged from a quarterly low of 38.63 percent to a quarterly high of 83.59 percent.

Home FS & LA's quarterly average net LTD ratio compares reasonably with other Kentucky financial institutions of similar size. The quarterly average net LTD ratio for two financial institutions of similar size that are similarly situated and competitors of Home FS & LA was 53.07 percent over the same 21 quarters. The ratios ranged from a quarterly low of 39.96 percent to a quarterly high of 63.46 percent during that time period.

**Lending in Assessment Area**

The analysis in **Table 4** of the institution's lending inside and outside the AAs includes originations and purchases only and was performed at the institution level as opposed to the AA level.

Lending in the assessment area is considered reasonable with a majority of loans originated within the assessment area. Cumulatively, a high percentage of home mortgage loans, 81.99 percent by number and 82.11 percent by dollar volume, were extended inside the institution's AAs. The distribution of loans inside the AAs indicates that the institution is serving the credit needs of its assessment area.

<b>Table 4 – Lending Bank-wide</b>										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Home Purchase	423	78.33	117	21.67	540	38,814	77.98	10,961	22.02	49,775
Home Refinance	626	84.82	112	15.18	738	68,024	85.09	11,916	14.91	79,940
Home Improvement	98	80.99	23	19.01	121	8,764	79.08	2,318	20.92	11,082
Totals	1,147	81.99	252	18.01	1,399	115,602	82.11	25,195	17.89	140,797

Source: Data reported under HMDA from January 1, 2009 - December 31, 2011.

**Lending to Borrowers of Different Incomes**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. The distribution of home mortgage loans was reasonable. Home FS & LA's record of lending to borrowers of different incomes meets the standard for satisfactory performance, when compared to the performance from aggregate HMDA-reporting lenders.

Opportunities to lend to low- and moderate-income borrowers within the assessment area were limited due to the competition among the banking institutions within the assessment areas, and institution's market share within its two assessment areas.

**Huntington-Ashland WV-KY-OH MSA 26580 AA**

The distribution of loans among individuals of different income levels reflects reasonable penetration. Home FS & LA's record of lending to borrowers of different incomes meets the standard for satisfactory performance, when compared to the performance from aggregate HMDA-reporting lenders.

The institution’s percentage of home purchase loans made to low-income borrowers is near the percentage of loans made to low-income borrowers by the aggregate peer lenders in 2010. The institution’s percentage of home purchase loans made to moderate-income borrowers is significantly below the percentage of loans made to moderate-income borrowers in 2010 by the aggregate peer lenders. Overall, the institution’s percentage of home purchase loans to low- and moderate-income borrowers reflects reasonable penetration when compared to the performance from aggregate HMDA-reporting lenders.

The institution’s percentage of home improvement loans made to low-income borrowers is significantly below the percentage of loans made to low-income borrowers by the aggregate peer lenders in 2010. The percentage of home improvement loans made to moderate-income borrowers is near the percentage of loans made in 2010 by the aggregate peer lenders. Overall, the institution’s percentage of home improvement loans to low- and moderate-income borrowers is reasonable when compared to the performance from aggregate HMDA-reporting lenders.

The institution’s percentage of home refinance loans made to low-income borrowers is near the percentage of loans made to low-income borrowers by the aggregate peer lenders in 2010. The percentage of home refinance loans made to moderate-income borrowers is near the percentage of loans made in 2010 by the aggregate peer lenders. Overall, the institution’s percentage of home refinance loans to low- and moderate-income borrowers is reasonable when compared to the performance from aggregate HMDA-reporting lenders.

**Table 5** details the institution’s performance for the period of January 1, 2009 through December 31, 2011 as compared to 2010 aggregate HMDA-reporting lenders.

<b>Table 5 - Borrower Distribution of Residential Real Estate Loans: Huntington-Ashland WV-KY-OH MSA #26580 AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	2010 Peer Aggregate	Bank % of Number of Loans	2010 Peer Aggregate	Bank % of Number of Loans	2010 Peer Aggregate	Bank % of Number of Loans	2010 Peer Aggregate	Bank % of Number of Loans
Home Purchase Loans	6.81	5.45	20.69	14.74	24.04	23.08	48.46	56.73
Home Improvement Loans	10.29	6.02	18.93	18.07	25.51	19.28	45.27	56.63
Refinance Loans	5.56	4.53	12.38	11.42	21.45	23.62	60.62	60.43

Source: Home FS & LA’s HMDA data 1/1/2009 - 12/31/2011; 2010 Peer Mortgage Data (USPR)

The institution participates in the Federal Home Loan Bank’s Welcome Home Program to help low-and moderate-income borrowers obtain affordable housing. Home FS & LA assisted eligible borrowers during this evaluation period. The institution made two loans to eligible borrowers in Greenup County middle-income tracts (in the Huntington-

Ashland MSA AA). These loans totaled \$88,450 and were included in the HMDA loan data reported by the institution.

The institution participated with Appalachian Foothills Housing Agency to provide decent, safe and sanitary housing for eligible families and to provide opportunities and promote self-sufficiency and economic independence for Section 8 participants. Home FS & LA assisted six qualified borrowers during this evaluation period.

### **Louisa KY Census Tract Non-MSA AA**

The distribution of loans among individuals of different income levels reflects reasonable penetration. Home FS & LA's record of lending to borrowers of different incomes meets the standard for satisfactory performance, when compared to the performance from aggregate HMDA-reporting lenders.

The institution's percentage of home purchase loans made to low-income borrowers exceeds the percentage of loans made to low-income borrowers by the aggregate peer lenders in 2010. The institution's percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of loans made to moderate-income borrowers in 2010 by the aggregate peer lenders. Overall, the institution's percentage of home purchase loans to low- and moderate-income borrowers reflects excellent penetration when compared to the performance from aggregate HMDA-reporting lenders.

The institution's percentage of home improvement loans made to low-income borrowers is significantly below the percentage of loans made to low-income borrowers by the aggregate peer lenders in 2010. The percentage of home improvement loans made to moderate-income borrowers is significantly below the percentage of loans made in 2010 by the aggregate peer lenders. Overall, the institution's percentage of home improvement loans to low- and moderate-income borrowers reflects poor penetration when compared to the performance from aggregate HMDA-reporting lenders.

The institution's percentage of home refinance loans made to low-income borrowers exceeds the percentage of loans made to low-income borrowers by the aggregate peer lenders in 2010. The percentage of home refinance loans made to moderate-income borrowers is significantly below the percentage of loans made in 2010 by the aggregate peer lenders. Overall, the institution's percentage of home refinance loans to low- and moderate-income borrowers is reasonable when compared to the performance from aggregate HMDA-reporting lenders.

**Table 6** details the institution's performance for the period of January 1, 2009 through December 31, 2011 as compared to 2010 aggregate HMDA-reporting lenders.

**Table 6 - Borrower Distribution of Residential Real Estate Loans:  
Louisa KY Census Tract #9901 Non-MSA AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	2010 Peer Aggregate	Bank % of Number of Loans	2010 Peer Aggregate	Bank % of Number of Loans	2010 Peer Aggregate	Bank % of Number of Loans	2010 Peer Aggregate	Bank % of Number of Loans
Home Purchase Loans	4.26	7.14	6.38	28.57	27.66	21.43	61.70	42.86
Home Improvement Loans	18.18	0.00	9.09	0.00	9.09	25.00	63.64	75.00
Refinance Loans	5.97	11.11	11.94	5.56	14.93	5.56	67.16	77.78

*Source: Home FS & LA's HMDA data 1/1/2009 - 12/31/2011; 2010 Peer Mortgage Data (USPR)*

### Geographic Distribution of Loans

The geographic distribution of loans reflects adequate dispersion throughout census tracts of different income levels, when compared to the performance from aggregate HMDA-reporting lenders. Home FS & LA's performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within Home FS & LA's AA.

### Huntington-Ashland WV-KY-OH MSA #26580 AA

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, when compared to the performance from aggregate HMDA-reporting lenders. Home FS and LA's performance meets the standard for satisfactory performance.

The institution's percentage of home purchase loans made in low- and moderate-income geographies is near the percentage of home purchase loans made in low- and moderate-income geographies by the aggregate peer lenders in 2010. The institution's percentage of home-improvement loans made in low-income geographies is near the percentage of home improvement loans made in low-income geographies by the aggregate peer lenders in 2010. The institution's percentage of home refinance loans made in low- and moderate-income geographies exceeds the percentage of home refinance loans made in low- and moderate-income geographies by the aggregate peer lenders in 2010.

**Table 7** details the institution's performance for the period of January 1, 2009 through December 31, 2011 as compared to 2010 aggregate HMDA-reporting lenders.

**Table 7 - Geographic Distribution of Residential Real Estate Loans:  
Huntington-Ashland WV-KY-OH MSA #26580 AA**

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	2010 Peer Aggregate	Bank % of Number of Loans						
Home Purchase	0.00	0.00	8.02	5.59	52.84	61.47	39.14	32.94
Home Improvement	0.00	0.00	3.98	2.25	54.98	78.65	41.04	19.10
Home Refinance	0.00	0.00	5.29	5.44	51.58	69.13	43.12	25.44

*Source: Home FS & LA's HMDA data 1/1/2009 - 12/31/2011; 2010 Peer Mortgage Data (USPR)*

Our analysis took into consideration the lack of affordability for low- and moderate-income individuals to purchase a home in each of the three AAs. We reviewed the 2000 US Census demographic data to evaluate the reasons for little or no loan penetration in categories or borrowers by income.

The weighted average of median housing values in this AA is \$63,274. According to the 2010 HUD updated median family income (\$49,600), low-income families earn less than \$24,799 and moderate-income families earn between \$24,800 and \$39,679. Additionally, 15 percent of households are below the poverty level. The lack of affordability limits the opportunities for the home purchase, home improvement, and home refinance lending to low- and moderate-income individuals. For this reason, it is deemed Satisfactory for the number of loans made to low- and moderate-income families may be below the number of families that represent these income tracts.

### **Louisa KY Census Tract 9901 non-MSA AA**

There are no low- or moderate-income census tracts in the Louisa KY Non-MSA AA; therefore an analysis of the geographic distribution of loans would not be meaningful.

### **Responses to Complaints**

Home FS & LA did not receive any complaints regarding its CRA performance during this review period. This has a neutral impact on the overall CRA rating.

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

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

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