



PUBLIC DISCLOSURE

February 23, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First FS & LA of McMinnville
Charter Number 703773

118 NE 3rd St, McMinnville, OR 97128-4902

Office of the Comptroller of the Currency

101 Stewart Street Suite 1010 Seattle, WA 98101

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: Outstanding

Lending performance by the First Federal Savings and Loan Association of McMinnville (First Federal, or Association) meets the community credit needs of its assessment area (AA).

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

- First Federal's loan-to-deposit ratio is more than reasonable given the Association's size, financial condition, and AA credit needs.
- A substantial majority of First Federal's loans are originated inside its AA.
- Lending activities represent reasonable penetration among individuals of different income levels.
- The performance for the geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The Association's community development (CD) performance demonstrates excellent responsiveness to the community development needs of Yamhill County through qualified CD loans, investments, and services.

Scope of Examination

We evaluated First Federal under the Intermediate Small Bank Procedures, which assess the Association's performance under both a lending test and a CD test. The lending test evaluates the Association's record of meeting the credit needs of its AA through its lending activities. Our assessment included an evaluation of the Association's residential property originations, including home purchase, refinances, and home improvement loans. Residential property loans are the Association's primary loan product, representing a majority of loan originations during the evaluation period, and approximately 70 percent of net loans and leases as of December 31, 2014. Through the CD test, we evaluated the Association's responsiveness to the CD needs of the AA through its qualifying lending, investment, and service activities.

The current evaluation period is December 1, 2010 through February 23, 2015. This represents the period since the prior CRA Performance Evaluation, which was conducted by the Office of Thrift Supervision. For most elements of the lending test, we reviewed the Association's lending performance for calendar years 2012, 2013, and 2014 (loan review period). For our CD review, we considered all qualified CD loans, investments and services during the evaluation period.

In order to evaluate First Federal's record of originating residential mortgage loans, we analyzed loan data collected and reported in accordance with the Home Mortgage Disclose Act (HMDA) requirements through the loan review period. To ensure the reliability of the HMDA loan data, we also performed a data integrity review during our CRA examination. We reviewed the Association's HMDA audits and tested a sample of approximately 200 of First Federal's reported HMDA loans to verify the accuracy of the HMDA loan data. Based on our testing and review, we determined that the level of exceptions and/or errors identified was not significant and was within the required thresholds. The information is therefore reliable for use in this evaluation.

Description of Institution

First Federal is a \$362 million federally chartered mutual headquartered in McMinnville, Oregon. In addition to the main banking facility, First Federal has seven branch locations and seven other deposit-taking ATMs within the AA of Yamhill County. First Federal offers various loan and deposit products, but focuses primarily on residential mortgage loans. At December 31, 2014, net loans represented 68.6 percent of total deposits and 57.9 percent of total assets. The following tables reflect First Federal's balance sheet at December 31, 2014.

Major Components of Assets, Liabilities, and Capital as of 12/31/2014			
Balance Sheet Component	Balance Sheet \$ Amount (000s)	% of Total Assets	1-year % Growth
Loans			
1-4 Family Residential Properties	139,158	38.43	3.21
Multi-family Residential Properties	7,363	2.03	42.3
Net Loans and Leases	209,630	57.89	3.41
Investments			
US Treasury and Agency	71,124	19.64	4.41
Other Securities	28,673	7.91	6.40
Interest-Bearing Bank Balances	32,142	8.88	-10.14
Total Assets	362,112	100.00	2.22
Liabilities & Capital (LC)		% of Total L/C	
Deposits	305,818	84.45	2.02
Total Liabilities	308,434	85.18	2.03
Total Capital	53,678	14.82	3.30

Source: December 31, 2014 Uniform Bank Performance Report

Competition for banking services is significant in Yamhill County, particularly for lending. The FDIC Deposit Market Share report dated June 30, 2014 reflects that First Federal has the greatest deposit market share of the nine FDIC-insured financial institutions operating in Yamhill County, at 28.6 percent of total deposits within the county. Significant deposit competitors in the AA include larger national and regional banks, such as U.S. Bank, Wells Fargo Bank, and Columbia State Bank. Peer mortgage data from 2013 reflects that First Federal ranks 6 out of 198 mortgage lenders operating in Yamhill County, with a market share of 3.3 percent based on the number of mortgage

loans originated or purchased. Wells Fargo Bank is the most significant mortgage lender in the AA, with other large banks and mortgage companies primarily competing with First Federal for mortgage lending activity.

First Federal has the financial capacity to assist in meeting the credit needs of its AA. There are no legal, financial, or other factors that impede the Association’s CRA efforts. First Federal received an “outstanding” rating at the last CRA examination dated November 30, 2010.

Description of Assessment Area

First Federal’s sole AA consists of Yamhill County, which is located within the Portland-Vancouver-Hillsboro OR-WA Metropolitan Statistical Area. The AA, as defined by the Community Reinvestment Act, consists of whole geographies and does not exclude low or moderate-income geographies within the county. Yamhill County contains 17 census tracts. Of these, seven are moderate-income, nine are middle-income, and one is upper-income. There are no low-income tracts within the AA. The following data summarizes the median family income for each income category.

Definition of Income Ranges Used in the Evaluation					
Income Category	Maximum Income in for Income Range				Median Family Income (MFI)
	Low	Moderate	Middle	Upper	
% Range of MFI	<50%	50%-<80%	80%-<120%	≥120%	
Yamhill County	<31,142	31,142<49,827	49,827<74,741	≥74,741	\$62,284

Source: U.S. Census Bureau, 2009-2013 5-Year American Community Survey

Yamhill County is located in Northwestern Oregon and is bordered by Washington, Clackamas, Polk, Marion, and Tillamook counties. The Willamette River forms the eastern boundary. The geography of Yamhill County is comprised of several small-forested mountain ranges separating wide valleys. There are no significant geographic barriers that impede the Association’s ability to serve any area of the county. The total area of the county is approximately 718 square miles. The county population is 99,193 as of the 2010 census. McMinnville is the county seat and the largest city with 32,187 residents as identified by the 2010 census. The area sits on the periphery of the Portland metro area and features small towns interspersed throughout.

The economy has gradually improved in recent years and economic growth is modest. According to data from the Bureau of Labor Statistics website (www.bls.gov), the average annual unemployment rate in Yamhill County has declined over the evaluation period, from 9.3 percent in 2011, to 8.6 percent in 2012, 7.5 percent in 2013, and 6.6 percent in 2014. These rates are similar to annual unemployment rates statewide during the same period, of 9.5 percent, 8.8 percent, 7.9 percent, and 6.9 percent, respectively. Historically, commercial timber was the largest industry. In recent years, the economy has shifted towards services and agriculture as the timber industry has suffered from a prolonged decline. Manufacturing, education, and agriculture are other prominent

industries in the area. Yamhill County is the epicenter of Oregon’s winemaking industry, which has also increased employment in local agriculture and related services.

In conjunction with this evaluation, we contacted a representative of a community development organization within the AA. The contact stated that banks in the area are meeting the needs of the community by providing free or reduced cost services, allowing the use of facilities at no cost, donating time and funding to non-profit organizations, and by providing financial expertise to assist community service organizations. First Federal also received a letter of appreciation commending them on their efforts to facilitate affordable housing, which is typically considered an ongoing significant need nationwide.

The following data illustrates demographic data on population, families, and housing units within the AA:

Demographic Information for Full Scope Area: Yamhill County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	17	0.00	41.18	52.94	5.88	0.00
Population by Geography	99,193	0.00	38.53	59.37	2.10	0.00
Owner-Occupied Housing by Geography	23,914	0.00	30.55	66.71	2.74	0.00
Business by Geography	8,155	0.00	39.13	57.55	3.32	0.00
Farms by Geography	769	0.00	16.64	75.29	8.06	0.00
Family Distribution by Income Level	24,414	23.69	20.03	23.38	32.90	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	10,675	0.00	47.18	51.52	1.30	0.00
Median Family Income		68,924	Median Housing Value		241,750	
2014 HUD Adjusted Median Family Income		69,400	Unemployment Rate		6.6%	
Households Below Poverty Level		12%	(2014 BLS Annual Average)			

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 US Census and 2014 HUD updated MFI

Conclusions with Respect to Performance Tests

LENDING TEST - Satisfactory

First Federal’s performance under the lending test is rated satisfactory. We considered performance under each component of the lending test to be at least reasonable. The following sections present quantitative and qualitative data used in evaluating lending performance.

Loan-to-Deposit Ratio

First Federal’s average quarterly loan-to-deposit (LTD) ratio is reasonable and demonstrates the bank’s responsiveness towards meeting the credit needs of the community. The quarterly net LTD ratio achieved by the bank averaged 76.2 percent during the 17-quarter period ending December 31, 2014. This level is satisfactory when compared to the average quarterly LTD achieved by the peer group of 77.3 percent for the same period.

The following table illustrates First Federal’s average LTD as compared to the peer group.

First Federal		Peer Group	
Average LTD Ratio	76.22	Average LTD Ratio	77.26
High LTD Ratio	96.26	High Avg. LTD	88.94
Low LTD Ratio	66.29	Low Avg. LTD	71.59

It is important to note that of the five banks used in the peer group, only one bank operates within First Federal’s AA. The comparative analysis above includes five financial institutions operating within the state of Oregon, with a reasonably comparable level of assets and branch locations in comparison to First Federal. The other institutions that operate in Yamhill County are large nationwide banks that are not similarly situated to First Federal.

Lending in Assessment Area

First Federal’s lending reflects that a substantial majority of the Association’s loans and other lending related activities are concentrated within the AA. During the loan review period, First Federal originated approximately 84 percent of its residential mortgage loans by number, and 80 percent by dollar volume within its AA. The following table illustrates the Association’s lending volume inside and outside the AA.

Lending in Yamhill County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	131	79.39	34	20.61	165	\$31,096	76.50	\$9,554	23.50	\$40,650
Home Refinance	173	86.50	27	13.50	200	\$35,347	82.63	\$7,430	17.37	\$42,777
Home Improvement	32	88.89	4	11.11	36	\$4,927	88.79	\$622	11.21	\$5,549
Total	336	83.79	65	16.21	401	\$71,370	80.21	\$17,606	19.79	\$88,976

Source: 2010 U.S. Census data; 2012-2014 HMDA

Lending to Borrowers of Different Incomes

First Federal’s lending penetration to low- and moderate-income borrowers is reasonable. The following table illustrates First Federal’s residential loan distribution for

each income level through the loan review period, and compares performance to aggregate peer data for the AA.

Distribution of Thrift Residential Real Estate Loans By Borrower Income Level in Yamhill County AA				
Borrower Income Category	% of # Loans	% of \$ Volume	% Family Distribution (Demographic)	% of Peer Aggregate
Low	7.14	3.48	23.69	7.72
Moderate	15.77	9.47	20.03	19.33
Middle	22.02	15.33	23.38	25.14
Upper	42.56	51.11	32.90	33.79
N/A	12.50	20.60		14.03
Total # or \$	336 loans	\$71,370		

Source: 2010 U.S Census data; 2012-2014 HMDA Data

Lending to low-income borrowers is reasonable. Though First Federal’s performance is lower than the demographic comparator, it falls within a reasonable range of the aggregate comparator. The median housing value is about 3.5 times the median family income, making home affordability more difficult for low-income families, who face more significant financial barriers to home affordability. Lending to moderate-income borrowers is also reasonable, as performance falls within a reasonable range of both the demographic and aggregate comparators.

Geographic Distribution of Loans

First Federal’s record of lending to borrowers of different geographies reflects reasonable dispersion throughout the AA. We analyzed the dispersion of HMDA-reportable loans within census tracts of different income levels during our review. The following table compares the Association’s HMDA reportable lending by census tract category within the AA to the percentage of owner-occupied housing units that are located within each of these categories, as well as aggregate peer data:

Distribution of Thrift RRE Loans By Census Tract Income Level in the Yamhill County AA				
Census Tract Income Category	% of # Loans	% of \$ Volume	% Owner Occupied (Demographic)	% of Peer Aggregate
Low	0.00	0.00	0.00	0.00
Moderate	29.46	27.88	30.55	27.65
Middle	69.05	70.05	66.71	68.98
Upper	1.49	2.07	2.74	3.37
Total # or \$	336 Loans	\$71,730		

Source: 2010 U.S Census data; 2012-2014 HMDA Data

The data presented in the table above demonstrates that the Association’s lending in moderate-income census tracts is reasonable. Performance falls within a reasonable range of both the demographic and aggregate HMDA comparators. We noted that First

Federal originated residential mortgage loans in all census tracts within the AA during the review period.

Responses to Complaints

During the evaluation period, First Federal received no consumer complaints related to the Association's CRA performance.

COMMUNITY DEVELOPMENT TEST – Outstanding

A CD qualified investment is an investment or grant that has CD as its primary purpose. The CRA regulation defines CD as: (1) the provision of affordable housing for low- and moderate-income individuals; (2) community services targeted to low- and moderate-income individuals; (3) activities that promote economic development by financing small businesses or small farms; or (4) activities that revitalize and stabilize low- and moderate-income geographies.

During the review period, First Federal demonstrated excellent responsiveness to AA needs through the provision of qualifying CD loans, investments, and services in its AA. The following sections present quantitative and qualitative data used in evaluating CD test performance.

Number and Amount of Community Development Loans

First Federal's CD loans reflect adequate responsiveness to the needs of the community. During the evaluation period, First Federal originated three CD loans totaling \$1.6 million. One loan directly benefits the AA, and two loans benefit a broader regional area. The following is a description of CD loans made by First Federal during the review period.

Yamhill County AA

First Federal received consideration for one loan in Yamhill County.

- Loan in the amount of \$380,000 to refinance a 9-unit apartment complex. Rents for this complex are 30 percent below fair market rents for Yamhill County. The property is located in a moderate-income area. Loan proceeds also included cash out for a new roof on the subject property and a down payment towards a 19-unit apartment complex located in a middle-income area. Rents at this complex are approximately 35 percent below fair market rents for Yamhill County.

Broader Regional Area

First Federal received consideration for two CD loans benefitting Marion County. Marion County borders Yamhill County to the southeast.

- Loan made to a non-profit organization in the amount of \$490,500 for the construction and permanent financing of 13 units of affordable housing targeted primarily to LMI individuals. A portion of the construction funds were provided by the City of Salem as part of the Home Program. That program requires that at least four of the 13 units be rented to families with incomes at or below 60 percent of the median income. The project plan reserves 10 units to accommodate LMI elderly individuals and foster children. Housing units are available to Section 8 participants and priced according to HUD’s affordable housing rates for low-income individuals. The organization provides needed services to children, youth, and families of adults with intellectual or developmental disabilities.
- Loan in the amount of \$763,000 to refinance a 10-unit apartment complex with rents at 20 percent below fair market rents for Marion County. The property is located in a moderate-income area and primarily serves LMI individuals and families.

Number and Amount of Qualified Investments

First Federal’s CD investments reflect excellent responsiveness to needs within the AA. CD investments total \$1,436,311, and include donations to 80 different qualifying organizations amounting to \$259,430 over the evaluation period.

- 2012 & 2013 - First Federal had previously purchased Business Energy Tax Credits, which had a balance of \$203,394 at the end of both 2012 and 2013; the unused balance dropped to \$110,649 at the end of 2014. These tax credits benefit Yamhill Community Action Partnership’s (YCAP) public transit department. YCAP is a non-profit organization that provides affordable transportation to residents of Yamhill County through its public transit system and free transportation through its Dial-A-Ride program to seniors and people with disabilities.
- 2014 – First Federal purchased \$380,909 of McMinnville School District No. 40 General Obligation Refunding Bonds, and another \$592,578 in McMinnville School District No. 40 General Obligation Bonds. These funds were used to build new facilities and improve existing facilities within a school district with a majority population of low- and moderate-income students.

First Federal made 356 separate donations to various community development organizations that provide needed services to low- and moderate-income people in Yamhill County. The following table provides some examples of donations made by First Federal since the Association’s last CRA examination. The data shows the top six

beneficiary organizations in the evaluation period, as well as totals by year for the evaluation period.

Key Organizations (partial list)	Donations		Year	Donations	
	#	\$		#	\$
Yamhill County Action Partnership	18	\$38,587	2010*	6	\$9,485
St. Barnabas Soup Kitchen	11	\$11,905	2011	78	\$81,272
Yamhill County Gospel Rescue Mission	10	\$10,132	2012	74	\$41,212
Juliette's House	11	\$9,286	2013	90	\$46,889
FISH	11	\$9,060	2014	98	\$72,423
Henderson House	10	\$8,008	2015*	10	\$8,150
			TOTAL	356	\$259,430

**2010 Donations include December only, and 2015 donations are through February 23, 2015.*

Extent to Which the Bank Provides Community Development Services

Retail Services

The distribution of First Federal's branches and service delivery systems is excellent and accessible to individuals of different income levels within the AA. The Association has seven branches in addition to the main banking office in McMinnville. The six full-service banking locations have either one or two ATMs accessible 24-hours, as well as night depositories. Two banking locations are limited service branches without ATMs that accommodate residents of retirement communities. First Federal is a member of Money Pass, a nationwide surcharge-free ATM Network, which allows customers to withdraw account funds from locations around the United States with no additional fees. Five branches are located in moderate-income tracts and three are located in middle-income tracts. First Federal offers low-cost accounts to accommodate their lower income customers, and those over 62 years of age. They also provide low-cost accounts to non-profit organizations. First Federal offers online and mobile banking to increase accessibility to banking services within its AA. There were no branch closures or openings during the evaluation period.

Community Development Services

First Federal CD services reflect excellent responsiveness to community needs. First Federal representatives were involved in numerous volunteer services and activities that qualify for CD consideration during the review period.

Representatives provided more than 3,471 qualifying CRA hours of community service to approximately 25 qualifying organizations during the evaluation period. These services included board membership, fund raising efforts, and financial and administrative services to various CD organizations. Specific examples of First Federal's community development services include the following:

- A representative of the Association served as a Board Member for Kids on the Block, an organization that provides free and low-cost educational enrichment activities for children of LMI families.
- A representative served as a Board Member for Catholic Community Services for Marion, Polk, and Yamhill Counties, which provides services to developmentally disabled foster children.
- A representative served as a Board Member of Rainbow Family Services in McMinnville, which provides foster care services and other needed services to youth and families at risk.
- A representative served as a Board Member, Secretary/Treasurer, and Budget Committee member for Community Home Builders, a self-help housing program for LMI individuals.
- A representative served as Site Selection Committee Chair for the McMinnville Area Habitat for Humanity (HFH).
- A representative served as Finance Committee Member and Mortgage Manager for the McMinnville Area HFH.
- A representative served as a Board Member for Mid Valley Rehabilitation, Inc. This organization provides employment, community inclusion, and residential support and transportation services to adults with developmental and other disabilities.
- A representative served on the Leadership Council for A Family Place, Emerging Relief Nursery of Yamhill County, which operates a child abuse and neglect prevention program.
- A representative served as a Board member for the McMinnville Area HFH.
- A representative served as a Board member for St Vincent de Paul. This charity resale store and food pantry provides resources to citizens in-need).
- A representative served as Board member for St Barnabas Soup Kitchen, which provides meals to community members in need.
- A representative served as Board member for Willamette Valley Cancer Foundation, which provides support to low-income cancer patients and their families.
- A representative served as a Board Member and Auction Committee Chair for Kiwanis Bids for Kids Auction. Kiwanis International is a community service organization that provides scholarships and other services for needy children. The auction raises funds that are distributed to qualifying CD organizations, including Juliette's House, Yamhill Community Action Partnership, and Start Making a Reader Today.
- A representative served as a Board member of Child, Youth and Family Services, which provides foster care services and other needed services to youth and families at risk).
- The Association provides the use of its Board Room in McMinnville, and the Community Room in Newberg to local non-profit organizations at no cost. Both locations are in moderate-income census tracts. Many of the organizations that take advantage of this offering are organizations with a qualifying CD purpose.

- Non-profits are allowed to advertise upcoming events through a public reader board on the McMinnville Loan Department, and the First Federal website provides hyperlinks to connect volunteers with local organizations.
- The Newberg and McMinnville offices are located in moderate-income tracts, and they each host a “Shred Day” once per year to provide free and confidential shredding service to the community at large, including LMI individuals. They use this opportunity to provide educational information, such as protecting against identity theft.

First Federal is actively involved in financial education efforts in their AA. They are a sponsor of EverFi Financial Scholars Program, which provides high school students with online financial literacy education that takes students about 6-8 hours to complete. Students completing the course receive a certificate worth \$25 when opening a new account. First Federal actively marketed the program to area high schools in 2012 in order to start up the program, and have paid related fees amounting to \$23 thousand during the evaluation period. The Association’s ultimate goal is to have all area high schools participate. First Federal also participates in the national program ‘Teach Children to Save Day’, which occurs every April. First Federal employees teach lessons to elementary school students in Yamhill County. Each child receives a piggy bank, activity book designed by First Federal staff members, and a \$10 voucher to put toward an existing or new account at First Federal. Out of 8 elementary schools participating in this event, half of them have a majority of the student population that is LMI, and the school district as a whole has a majority of LMI students.

During the evaluation period, First Federal also purchased 12 residential mortgage loans from Habitat for Humanity where the rate charged to the organization was lower than the Association’s stated rate for that product at the time of purchase. This discount resulted in approximately \$64 thousand additional dollars that supported Habitat for Humanity’s mission instead of interest expense at First Federal.

During the evaluation period, First Federal continued to offer their First Time Homebuyer Program (FTHB), which allows up to 97 percent financing with no private mortgage insurance required for individuals and families at or below 90 percent of the median family income in Yamhill County. First Federal waives loan origination and underwriting fees for first time homebuyers. The Association also continued to offer FTHB loans to those using Yamhill County Housing Authority’s Housing Choice Voucher Homeownership Program (HAP), which uses Section 8 rental assistance vouchers to create homeownership opportunities for participants. Participation in this program saves new homeowners thousands of dollars, making the dream of home ownership more accessible to those in lower income brackets.

As a member of the Seattle Federal Home Loan Bank (FHLB), First Federal participates in the FHLB Home\$tart Plus Grant Program, and partners with local Habitat for Humanity chapters to facilitate home ownership through these grants. First Federal assisted 13 first time homebuyers, with incomes at or below 80 percent of median income, to obtain FHLB grants for down payment assistance and/or closing costs.

Seven grants, totaling \$40 thousand, benefitted applicants working to buy their homes through Habitat for Humanity in McMinnville or Newberg. First Federal is the only financial institution in Yamhill County that participates in the Home\$tart Grant program.

Responsiveness to Community Development Needs

First Federal's CD lending, investment, and service activities demonstrates excellent responsiveness to the needs within its AA. This conclusion is based on our review of the Association's retail banking products and its involvement in CD activities within the AA during the evaluation period.

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.