



## **PUBLIC DISCLOSURE**

January 5, 2015

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

First Savings and Loan Association  
Charter Number 705224

206 West Center Street  
Mebane, NC 27302

Office of the Comptroller of the Currency

212 South Tryon  
Suite 700  
Charlotte, NC 28281

**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 Outstanding**

Summarize the major factors supporting the institution's rating.

The major factors that support this rating include:

- The bank's quarterly average loan-to-deposit (LTD) ratio is reasonable.
- The bank makes a substantial majority of its loans inside its assessment area (AA).
- The distribution of loans to borrowers of different income reflects excellent penetration throughout the AA.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The bank did not receive any complaints during the evaluation period.

## **SCOPE OF EXAMINATION**

We performed a full-scope evaluation of First Savings and Loan Association's (FS&LA) performance using the small bank Community Reinvestment Act (CRA) evaluation procedures. Based upon the bank's strategy and the loans originated during the evaluation period, we determined that residential mortgage loans are the bank's primary loan product. As a result, we reviewed the residential mortgage loans subject to filing under the Home Mortgage Disclosure Act (HMDA).

The evaluation period for residential mortgage loans is January 1, 2012 through December 31, 2013. The evaluation period for the loan-to-deposit ratio is October 1, 2008 through December 31, 2013.

## **Data Integrity**

In December 2014, we conducted an evaluation of the integrity of the bank's publicly filed HMDA information to verify the accuracy of the data. The test included an evaluation of the bank's processes to ensure the data was reliable. The bank's processes, procedures, and internal controls for HMDA data collection, verification, and reporting are satisfactory. We did not identify any systemic reporting errors or problems. This evaluation relies on accurate data.

## DESCRIPTION OF INSTITUTION

First Savings and Loan Association (FS&LA) is an intrastate financial institution headquartered in Mebane, NC that operates one banking office. The bank opened for business in 1909. The bank's main office is located in a middle-income census tract, and the bank did not open or close any branches during the evaluation period.

FS&LA offers a range of banking products and services. As of September 30, 2014, the bank had total assets of \$58 million, and 1-4 family residential real estate loans comprised approximately 50 percent of total assets. Residential lending is approximately 95 percent of the total loan portfolio with the remaining 5 percent in non-farm, non-residential properties. This loan mix is consistent with FS&LA's strategy. Through September 30 2014, the bank has \$45.9 million in total deposits the bank holds for their local customer base. Competitors in the AA include Vantagesouth, Carolina Bank, Bank of North Carolina, and the Fidelity Bank.

The bank's tier one capital is \$11.5 million and the bank's risk based capital is \$11.7 million. The table below reflects the distribution of the bank's loan portfolio through September 30, 2014.

<b>First Savings and Loan Association Distribution of Loan Portfolio as of September 30, 2014</b>			
<b>Loan Type</b>	<b>Amount by Loan Type (\$000s)</b>	<b>Total Amount of Loans (\$000s)</b>	<b>% of Total Loans</b>
<b><i>Commercial Real Estate including Commercial &amp; Industrial</i></b>		<b><i>\$1,349</i></b>	<b><i>4.57%</i></b>
Non-farm Non-residential Properties	\$1,349		
Construction and Land Development	\$0		
Commercial and Industrial	\$0		
Secured by Farmland	\$0		
<b><i>Residential Real Estate, including Multifamily</i></b>		<b><i>\$28,138</i></b>	<b><i>95.43%</i></b>
1-4 Family Residential Secured by 1 <sup>st</sup> liens	\$28,070		
1-4 Family Residential Secured by junior liens	\$0		
1-4 Family Residential, open-end	\$0		
Multifamily (5 or more) Residential	\$0		
Construction 1-4 Family	\$68		
<b><i>Consumer</i></b>		<b><i>\$0</i></b>	<b><i>0%</i></b>
<b>Total Loans</b>		<b>\$29,487</b>	<b>100%</b>

There are no known legal, financial or other factors impeding FS&LA's ability to help meet the credit needs of its assessment area. The bank received an "Outstanding" CRA rating in the last CRA public evaluation dated December 31, 2008.

## DESCRIPTION OF ASSESSMENT AREA(S)

FS&LA has defined Alamance County, North Carolina, as its AA. The bank's AA contains 36 census tracts that are composed of zero low-income, seven moderate-income, 17 middle-income, and 12 upper-income census tracts. Alamance County is part of the Metropolitan Statistical Area (MSA) of Burlington. The bank's AA complies with the technical requirements of the CRA and does not arbitrarily exclude low- or moderate-income census tracts.

Based upon 2010 U.S. Census data, the total population of Alamance County was 151,131. Unemployment for Alamance County is 8 percent for 2013 according to the Bureau for Labor Statistics. This is a downward trend from 9.1 percent in 2012, 10.3 percent in 2011, and 11.6 percent in 2010. The major employers in Alamance County are the Alamance-Burlington School System, Laboratory Corp. of America, Alamance Regional Medical Center, Elon University, and Wal-Mart Stores.

FS&LA faces strong competition from large, regional, and community banks in the AA. Through June 30, 2014, the Federal Deposit Insurance Corporation (FDIC) reported 17 financial institutions, with 47 offices in Alamance County. Combined, these banks hold approximately \$1.9 billion in deposits. FS&LA’s market share was 2.43 percent.

During the examination, we made a community contact to determine the economic conditions, housing, and local banking needs for low- to moderate-income residents in the assessment area. The contact noted that economic conditions improved but unemployment remains problematic for Alamance County. The contact stated that low-income residents lack access to affordable housing and no financial institutions participate in the organizations initiatives, such as financial literacy classes and job placement services. One of the opportunities in which financial institutions can help low- to moderate-income residents of Alamance County is to help teach basic financial literacy classes.

The following table summarizes certain demographic characteristics in the Alamance County AA.

<b>Demographic Information for Alamance County AA</b>						
<b>Based upon 2010 U.S. Census Data</b>						
	<b>CENSUS TRACT INCOME LEVEL<sup>1</sup></b>					
		<b>TOTAL</b>	<b>LOW</b>	<b>MODERATE</b>	<b>MIDDLE</b>	<b>UPPER</b>
<b>CENSUS TRACTS/BNAs</b>	<b>#</b>	36	0	7	17	12
<b>Population</b>	<b>#</b>	151,131	0	33,083	72,385	45,663
<b>By Location</b>		100.00%	0%	21.89%	47.90%	30.21%
<b>% Owner Occupied</b>		100.00%	0%	17.12%	48.25%	34.63%
<b>% Renter Occupied</b>		100.00%	0%	31.67%	47.26%	21.07%
<b>% Vacant</b>		100.00%	0%	28.62%	49.30%	22.07%
<b>Median Housing Value</b>		\$138,306	\$0	\$90,902	\$138,102	\$174,972
<b>Updated Median Family Income (MFI) For 2010</b>		\$43,043				
<b>% Of Families Below Poverty Level</b>		20.7%				

<sup>1</sup> The Median Family Income (MFI) of a low-income census tract is <50% of the MFI of the MSA in which it is located. Similarly, a moderate-income tract is ≥50%, but <80%; a middle-income tract is ≥80%, but <120%; and an upper-income tract is ≥120%.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FS&LA’s overall lending performance is outstanding. This conclusion is based upon the results of the following lending tests used to determine if the bank meets the credit needs of the AA. All criteria of the specific lending tests are documented below.

### Loan-to-Deposit Ratio

FS&LA’s loan-to-deposit (LTD) ratio is reasonable considering demand for bank loans and the impact of high volume depositors on the LTD ratio. Additionally, comparisons are made to institutions of a similar asset size that do business in NC, but that do not have a branch presence in the bank's assessment area. The bank’s loan rates are higher than competitor banks in the AA, which impacts demand for bank loans. The bank also has a high proportion of core deposits held by a small number of depositors. Since the last CRA examination from December 31 2008, the bank's quarterly average LTD ratio is 62.05 percent. The bank's LTD ratio ranged from a quarterly low of 59.01 percent to a quarterly high of 66.53 percent. In comparison, the average LTD ratio over the same period for similarly situated institutions ranged from a low of 74.09 percent to a high of 109.08 percent.

### Lending in Assessment Area

A substantial majority of the bank's home mortgage loans originate inside the AA. During the evaluation period, 83.9 percent of the total number and 81.61 percent of the total dollar amount were originated within the bank’s AA. Table 1 compares the bank's record of HMDA reportable loan originations inside and outside the combined assessment areas.

Table 1 – Home Mortgage Loans Originated In and Outside of the Assessment Area January 1, 2012 through December 31, 2013						
Loan Type	% Inside Area		% Outside Area		Total	
	#	\$(000)	#	\$(000)	#	\$(000)
Home Mortgage Loans	120	\$10,494	23	\$2,364	143	12,858

### Lending to Borrowers of Different Incomes

The bank's distribution of home mortgage loans reflects excellent penetration among borrowers of different income levels. Table 2 shows the percentage of lending to borrowers of different income levels in the AA and compares it to the percentage of families in each income category. The distribution of loans to low-income borrowers is reasonable when compared to the percentage of families in the AA. According to the 2010 U.S. Census data, 20.7 percent of families residing within the AA have income below the poverty level. The distribution of loans to moderate-income borrowers is reasonable when compared to the percentage of moderate-income families within the AA.

We compared FS&LA’s percentage of lending activity to borrowers of different income levels to lending activity of other lenders in the AA subject to HMDA reporting. The bank's distribution of loans to low-income borrowers is excellent compared to the percentage of lending to low-income borrowers by other lenders. The bank's distribution of loans to moderate-income borrowers exceeded the percentage of lending to moderate-income borrowers by other lenders.

Table 2 Borrower Income Level Alamance County	FS&LA (2012-2013)		2013 Aggregate HMDA	Distribution of Families In AA
	Number of Loans	Percent of Loans		
Low = <50%	9	9.47%	6.24%	0%
Moderate = 50-79%	21	22.11%	18.35%	21.89%
Middle = 80-119%	21	22.11%	25.49%	47.90%
Upper = ≥ 120%	44	46.32%	49.92%	30.21%
<b>**Total</b>	<b>95</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source 2012-2013 HMDA Data, 2013 Peer HMDA, and 2010 U.S. Census Data

### Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. Based upon 2010 U.S. Census data, there are no low-income census tracts in Alamance County. Table 4 presents the geographic distribution of loans compared to the percentage of owner-occupied housing units for each census tract. The distribution of loans in moderate-income census tracts exceeds the percentage of owner-occupied housing units in moderate-income census tracts.

Table 3 – Geographic Distribution of Loans By Census Tract Income Level in the Alamance County AA January 1, 2012 through December 31, 2013			
Census Tract Income Category	% of Loans	% Owner Occupied	% of Aggregate (or Peers)
Low	0.00%	0.00%	0.00%
Moderate	29.63%	17.12%	10.27%
Middle	46.30%	48.25%	51.07%
Upper	24.07%	34.63%	38.66%
<b>Total %</b>	<b>100%</b>	<b>100.00%</b>	<b>100.00%</b>

The geographic distribution of loans was compared to the Aggregate 2013 HMDA lending data. The table above compares the bank's distribution of loans to other lenders in the AA subject to HMDA reporting requirement. The bank's distribution of loans in moderate-income census tracts exceeds the percentage of lending of other lenders.

### Responses to Complaints

During the evaluation period, the bank did not receive any complaints related to their performance in meeting the credit needs of the AA.

## **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.