



## **PUBLIC DISCLOSURE**

February 29, 2016

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

Slovenian Savings & Loan Association of Franklin-Conemaugh  
Charter Number 707703

361 First Street  
Conemaugh, PA 15909

Office of the Comptroller of the Currency

Corporate One Office Park, Bldg 2  
4075 Monroeville Blvd, Suite 300  
Monroeville, PA 15146-2529

**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.**

Slovenian FS&LA's (Slovenian) performance under the Lending Test is "Satisfactory", which is consistent with the prior CRA Public Evaluation.

- The bank's lending activity is reasonable when compared to a peer group of similarly situated banks;
- The bank originated a substantial majority of its residential mortgage loans within its AA;
- The bank has demonstrated a reasonable distribution of residential mortgage loan originations to AA borrowers of different income levels, and;
- The bank has demonstrated a reasonable proportion of residential mortgage loan originations throughout their AA geographies.

**SCOPE OF EVALUATION**

Slovenian was reviewed under the Small Bank Community Reinvestment Act (CRA) evaluation procedures. This evaluation was a full scope review of the bank's AA. Our review encompassed the bank's performance from January 1, 2013 to September 30, 2015, as this time-period was representative of its lending strategy since the last CRA evaluation dated October 18, 2010. Residential mortgages are the bank's primary loan product and were reviewed as part of this evaluation. In order to assess the bank's record of lending, we analyzed a random sample of one hundred twenty (120) residential mortgage loans originated by Slovenian between January 1, 2013 and December 31, 2014.

Slovenian is a \$132 million, mutual institution, chartered in 1915 and is headquartered in Conemaugh, Pennsylvania (PA). The town of Conemaugh is located in Southwestern Cambria County, PA. Cambria County is situated in Southwestern Pennsylvania.

Slovenian operates five full-service branch offices. The bank's main office/branch is in Conemaugh, PA and they have four additional branches, including (3) in Johnstown, PA, and (1) in Windber, PA. No branches were opened or closed during the review period.

Slovenian's five branches have lobbies open Monday through Thursday 9:00AM to 4:00PM; five office lobbies are opened Friday 9:00AM to 6:00PM; and two offices are opened 9:00AM to 12:00PM on Saturday. Two branches have drive-up hours Monday through Saturday, and two branches have drive-up hours Monday through Friday. Four branches have drive-up ATMs that are open 24 hours, and one office has a walk-up ATM.

Slovenian is a federally-chartered, mutual institution operating as a traditional thrift. Slovenian has been offering traditional loan products and services. Slovenian primarily focuses on local residential real estate lending, and its retail products include checking accounts, savings accounts, and individual retirement accounts. Additional product and services information is available at the bank's website at [www@sloveniansavings.com](http://www@sloveniansavings.com).

As of September 30, 2015, Slovenian reported net loans of \$72.3 million, total deposits of \$114.9 million, and tier one capital of \$14.8 million. Net loans represent 62.9% of total assets. The bank's loan portfolio consists of one-to-four family residential real estate loans (69.5%), home equity loans (25.8%), loans to individuals (1.8%), and other real estate loans (2.9%).

There are no financial or legal circumstances impeding the bank's ability to help meet the credit needs in its AA. Slovenian received a satisfactory rating for its previous CRA performance evaluation, conducted as of October 18, 2010.

In conjunction with the data integrity examination, we evaluated processes employed by Slovenian to ensure the accuracy of collected HMDA data and tested a sample of Slovenian's reported HMDA loans. Specifically, we tested the accuracy of Slovenian's HMDA loan data by comparing it against corresponding loan file documentation. The data integrity examination revealed that Slovenian's publicly available HMDA loan data for 2014 contained errors, which the bank corrected prior to the commencement of this evaluation. No HMDA errors were noted for years 2012 and 2013.

## **DESCRIPTION OF THE JOHNSTOWN, PA MSA ASSESSMENT AREA**

Slovenian's Johnstown, PA MSA (#27780) AA includes 28 contiguous whole Census Tracts (CTs) of the 42 total CTs in Cambria County, Pennsylvania (PA). According to 2010 U.S. Census data, of the twenty-eight Johnstown AA geographies, none are low-income, nine are designated as moderate-income, fourteen are designated as middle-income, and five are considered as upper-income. None of the tracts are distressed or underserved. The Johnstown AA meets regulatory requirements and does not arbitrarily exclude low and moderate-income geographies.

The following tables detail AA demographic data:

<b>Table 1 - Demographic Information for Full Scope Area: Slovenian Johnstown 2015</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	28	0.00	32.14	50.00	17.86	0.00
Population by Geography	87,771	0.00	22.76	50.05	27.19	0.00
Owner-Occupied Housing by Geography	27,092	0.00	18.23	51.53	30.23	0.00
Business by Geography	5,293	0.00	16.27	56.49	27.24	0.00
Farms by Geography	107	0.00	9.35	64.49	26.17	0.00
Family Distribution by Income Level	24,005	19.36	19.76	21.15	39.73	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	9,390	0.00	34.96	47.40	17.64	0.00
Median Family Income HUD Adjusted Median Family Income for 2015 Households Below Poverty Level		\$50,900 \$55,600 15%	Median Housing Value  Cambria County Unemployment Rate (Sept 2015 US Bureau of Labor Statistics)  PA Unemployment Rate (Sept 2015 US Bureau of Labor Statistics)		\$87,756  5.7%  5.3%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2015 HUD updated MFI

For Slovenian’s Johnstown AA, the 2010 U.S. Census reports a total population of 87,771, total families of 24,005 and owner-occupied housing of 27,092. Of total AA households, 15% subsist below the poverty level. Of the 24,005 AA families, 4,647 and 4,743 were classified as low- and moderate-income, respectively. The United States Department of Housing and Urban Development (HUD) data, updated for 2015, reports adjusted AA median family income to be \$55,600. Of AA families, 19.36% are low-income, 19.76% are moderate-income, 21.15% are middle income, and 39.73% are upper income.

Johnstown is a city in Cambria County, PA. The Bureau of Labor Statistics, as of September 2015, reported the unemployment rate in Cambria County to be 5.7%. Unemployment in Cambria County is slightly higher than the 5.3% rate reported for the State of Pennsylvania during the same period.

Top employers in Cambria County, as of the second quarter of 2015, include: DLP Partner Conemaugh LLC, State of PA Government, Federal Government, Cambria County, Wal-Mart Associates, Inc., Saint Francis University, DLP Conemaugh Physician Practices, University of Pittsburgh, Concurrent Technologies Corp, and Sheetz, Inc.

Major area industries include natural resources and mining; construction; manufacturing; trade, utilities; financial activities, professional and business services; and education and health services.

Banking competition within the Slovenian's Johnstown AA is strong. According to the FDIC Deposit Market Share Report, as of June 30, 2015, within the Johnstown, PA MSA AA, Slovenian is ranked eighth in market share, garnering 3.34% of deposits.

Of Slovenian's four branches in the Johnstown AA, three are located in Cambria County. Many of the primary competitors in the area are larger institutions. Market area competitors include Ameriserv Financial Bank, 1<sup>st</sup> Summit Bank, First National Bank of Pennsylvania, First Commonwealth Bank, Northwest Bank, Somerset Trust Company, and S&T Bank.

In 2014, Slovenian has a ranking of 10<sup>th</sup> and a market share of 2.99% for loans originated or purchased among banks in the Johnstown AA, including large commercial banks. Slovenian ranks 6<sup>th</sup> with a market share of 3.83% among banks in the Johnstown AA, including large commercial banks, for home purchase loans; and ranks 15<sup>th</sup> with a market share 2.14% for refinanced loans.

## **DESCRIPTION OF THE SOMERSET, PA NON- MSA ASSESSMENT AREA**

Slovenian's Somerset County non-MSA AA serves seven of the 21 census tracts. The seven (7) geographies are located in the northern-most part of the Somerset AA. The seven census tracts are all middle-income tracts. Slovenian's Somerset AA does not contain any low-income geographies. None of the tracts in the Somerset AA is distressed or underserved. The Somerset AA meets regulatory requirements and does not arbitrarily exclude low and moderate-income geographies.

The following tables detail AA demographic data:

<b>Table 2 - Demographic Information for Full Scope Area: Slovenian Somerset 2015</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0.00	0.00	100.00	0.00	0.00
Population by Geography	29,298	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	9,881	0.00	0.00	100.00	0.00	0.00
Business by Geography	1,532	0.00	0.00	100.00	0.00	0.00
Farms by Geography	78	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	8,243	18.76	18.33	26.58	36.33	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,057	0.00	0.00	100.00	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2015 Households Below Poverty Level		\$50,163 \$55,900 13%		Median Housing Value  Somerset County Unemployment Rate (Sept 2015 US Bureau of Labor Statistics)  PA Unemployment Rate (Sept 2015 US Bureau of Labor Statistics)	\$82,714  6.7%  5.3%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2015 HUD updated MFI

For Slovenian’s Somerset non-MSA AA, the 2010 U.S. Census reports a total population of 29,298, total families of 8,243, and owner-occupied housing of 9,881. Of total AA households, 13% subsist below the poverty level. Of the 8,243 AA families, 1,546 and 1,511 were classified as low- and moderate-income, respectively. The United States Department of Housing and Urban Development (HUD) data, updated for 2015, reports adjusted AA median family income to be \$55,900. Of AA families, 18.76% are low-income, 18.33% are moderate-income, 26.58% are middle income, and 36.33% are upper income.

Somerset County is a part of Southwestern Pennsylvania, and is located in a non-MSA. The Bureau of Labor Statistics, as of September 2015, reported the unemployment rate in Somerset County to be 6.7%. Unemployment in Somerset County is higher than the 5.3% rate reported for the State of Pennsylvania during the same period.

Top employers in Somerset County as of the second quarter of 2015 include:

State of PA Government; Seven Springs Mountain Resort, Inc.; Somerset Hospital; Windber Hospital, Inc.; Somerset County; CVS PA Distribution, Inc.; Somerset Area School District; Wal-Mart Associates, Inc.; Somerset Trust Co.; and Wilson Creek Energy LLC.

Major area industries include natural resources and mining; construction; manufacturing; trade, utilities; financial activities, professional and business services; and education and health services.

Banking competition within the Slovenian's Somerset non-MSA AA is strong. According to the FDIC Deposit Market Share Report, as of June 30, 2015, Slovenian is ranked eighth in market share, garnering 1.61% of market deposits.

Slovenian's one branch, in the Somerset AA, is located in northern Somerset County, adjacent to Cambria County. Many of the primary competitors in the area are larger institutions. Area competitors include Somerset Trust Company, First National Bank of Pennsylvania, First Commonwealth Bank, PNC Bank, National Association, Ameriserv Financial Bank, and 1<sup>st</sup> Summit Bank.

In 2014, Slovenian has a ranking of 7<sup>th</sup> and a market share of 4.62% for loans originated or purchased among banks in the Somerset AA, including large commercial banks. Slovenian ranks 5<sup>th</sup> with a market share of 5.72% among banks in the Somerset AA, including large commercial banks, for home purchase loans; and ranks 11<sup>th</sup> with a market share 3.91% for refinanced loans.

During the performance evaluation, a local department of community and economic development department (DCED) was contacted for comments. The mission of the DCED is to actively elicit community involvement when working with government and private sector businesses to build strong communities, industries, and markets in greater Johnstown area. The organization primarily serves the City of Johnstown, PA. The Department also consists of a Regional Development Program (RDP) designed to provide financial assistance to low to moderate-income households to rehabilitate and preserve affordable housing.

Our community contact indicated that there is a need for housing preservation and revitalization. He said that the credit needs of the City have been adequately satisfied by six area financial institutions, which have provided residents with loans that are affordable. Slovenian was not mentioned by the contact. The Department obtains HUD and CDBG money from the state, and gets UDAG money. Area banks volunteer their time and make loan decisions to determine if applicants are qualified for a revolving loan program funded by the DCED, whereby the applicants put up 5% of the funds, and the Department funds the balance.

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

Slovenian's performance under the Lending Test is "Satisfactory." Slovenian's lending activity compares reasonably to a peer group of similarly situated banks. Slovenian, over the evaluation period, originated a substantial majority of its residential mortgage loans within the Johnstown and Somerset AAs. Slovenian has demonstrated a reasonable distribution of originating residential mortgages among AA borrowers of different income levels and a reasonable proportion of residential mortgage originations among geographies of different income levels.

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

Slovenian's net loan to deposit ratio is reasonable given the bank's size, financial condition, AA credit needs, and internal/external factors. The bank's quarterly net loan-to-deposit ratio averaged 62.05 percent over 15 quarters from January 1, 2012 to September 30, 2015, with a quarterly low of 59.72 percent and a quarterly high of 63.53 percent. (Thrift Call Report information regarding this ratio was not available until first quarter of 2012.)

The bank's net loan-to-deposit ratio is in line with other community banks of similar size (asset size between \$21 million and \$328 million), location, and product offerings. Given the number of banks in Slovenian's AAs, the peer group consists of two other banks considered to be similarly situated to Slovenian, located within the Cambria County area that includes Slovenian's AA. Slovenian ranks 1<sup>st</sup> between the two other banks in the peer group. The aggregate average net loan-to-deposit ratio of the other institutions was 37.48 percent, ranging from a low of 28.28 percent to a high of 53.27 percent over the 15 quarters from January 1, 2012 through September 30, 2015.

External factors affecting the bank's ability to make loans include strong competition from larger institutions within the bank's AA. Net loans and leases decreased slightly at an average rate of 1.98% from December 31, 2012 through September 30, 2015, and total deposits decreased at an average rate of 1.96% over the same period. Slovenian's lending practices continue to rely on conservative underwriting standards.

### **Lending in the Assessment Areas**

Slovenian originates a substantial majority of its loans to borrowers located within its Johnstown and Somerset AAs and exceeds the standards of satisfactory performance. Slovenian originated a total of 213 loans in 2015, and 88.73% or 189 loans were originated in the AAs, and only 24 outside the AAs. Lending to customers within the AAs for residential loans is more than reasonable.

### **Lending to Borrowers of Different Incomes in the Johnstown AA**

Slovenian's record of originating residential mortgages among Johnstown AA borrowers of different income levels meets the standard for satisfactory performance. The

distribution of Slovenian's residential mortgage originations reflects reasonable distribution among Johnstown AA borrowers, considering the context in which Slovenian operates.

Slovenian's record of originating home purchase, home improvement, and home refinance loans to low-income AA borrowers is below the percentage of Johnstown AA families classified as low-income for each of the respective loan types. Most loans originated were for home purchase (109), and Slovenian originated only (3) loans for home-improvement, (20) refinanced loans, and only one multi-family loan, so our analysis is weighted more heavily on loans originated for home purchase when determining the reasonableness of penetration in the Johnstown AA.

Slovenian's record of originating home purchase, home improvement, and home refinance loans to moderate-income Johnstown AA borrowers is reasonable and is only slightly below the percentage of AA families classified as moderate-income.

Opportunities to originate residential mortgages within Slovenian's Johnstown AA may be impacted by demographic factors including the extent to which the bank's AA population is age 65 or older (20.4%), and the population that is at or below poverty level (14.90%). Opportunities to originate residential mortgages within the AA may also be impacted by housing affordability and banking competition. US Census data for 2010 reports the median housing value within Slovenian's Johnstown AA to be \$87,756. Additionally, 15.00% of Johnstown AA families subsist below the poverty level, and area unemployment of 5.7% exceeds the Pennsylvania state employment rate of 5.3%.

The following table details the distribution of home purchase, home improvement, and refinancing loans originated by Slovenian during the evaluation period among Johnstown AA borrowers.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.36%	12.84%	19.76%	15.60%	21.15%	24.77%	39.73%	46.79%
Home Improvement	19.36%	0.00%	19.76%	0.00%	21.15%	0.00%	39.73%	100.00%
Home Refinance	19.36%	0.00%	19.76%	5.00%	21.15%	15.00%	39.73%	80.00%

Source: Loan sample and 2010 U.S. Census data

### **Geographic Distribution of Loans in the Johnstown AA**

The distribution of Slovenian’s residential mortgage originations reflects an adequate proportion among the Johnstown AA geographies considering the context in which Slovenian operates, and meets the standards of satisfactory performance.

Slovenian’s Johnstown AA contains no low-income geographies, 9 moderate-income, 14 middle-income, and 5 upper-income geographies. Slovenian lends in most tracts, but there are 14 CTs in northern Cambria County that are not in the Johnstown AA. There are no CTs within Cambria County designated as distressed and underserved. Of all owner-occupied housing available within Slovenian’s Johnstown AA, the 2010 U.S. census data reports that 18.23% (4,939 of 27,092 units) are located within the AA’s moderate-income geographies. The vast majority, 81.76% of all Johnstown AA owner-occupied housing, is located within the AA’s middle- and upper-income geographies.

The following table details the distribution of home purchase loans, home-improvement loans, and home refinance loans originated by Slovenian during the evaluation period among Johnstown AA geographies.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00%	0.00%	18.23%	11.01%	51.53%	55.05%	30.23%	33.94%
Home Improvement	0.00%	0.00%	18.23%	0.00%	51.53%	33.33%	30.23%	66.67%
Home Refinance	0.00%	0.00%	18.23%	0.00%	51.53%	35.00%	30.23%	65.00%

Source: Loan Sample and 2010 U.S. Census Data

### **Responses to Complaints in the Johnstown AA**

Slovenian did not receive any complaints about its performance in helping to meet credit needs in the Johnstown AA during this evaluation period. This criterion is not applicable.

### **Fair Lending or Other Illegal Credit Practices Review in the Johnstown AA**

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

### **Lending to Borrowers of Different Incomes in the Somerset AA**

Slovenian's record of originating residential mortgages among Somerset AA borrowers of different income levels does not meet the standard for satisfactory performance. The distribution of Slovenian's residential mortgage originations reflects a weak distribution among AA borrowers, considering the context in which Slovenian operates.

Slovenian's record of originating home purchase, and home refinance loans to low-income and moderate-income Somerset AA borrowers is below the percentage of AA-families classified as low-income and moderate-income. Slovenian's record of originating Home Improvement Loans is higher than the percentage of AA-families classified as low-income or moderate-income.

Opportunities to originate residential mortgages within Slovenian's Somerset AA may be impacted by demographic factors including the extent to which the bank's AA population is age 65 or older (20.40%), and/or the population that is at or below poverty level

(12.40%). Opportunities to originate residential mortgages within the AA may also be impacted by housing affordability and banking competition.

US Census data for 2010 reports the median housing value within Slovenian’s Somerset AA to be \$82,714. The 2015 HUD updated median family income is \$55,900. Additionally, 13.00% of AA families subsist below the poverty level and area unemployment exceeds the Pennsylvania state unemployment rate of 5.3%.

The following table details the distribution of home purchase, home improvement, and refinancing loans originated by Slovenian during the evaluation period among Somerset AA borrowers.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18.76%	7.50%	18.33%	7.50%	26.58%	25.00%	36.33%	60.00%
Home Improvement	18.76%	25.00%	18.33%	25.00%	26.58%	0.00%	36.33%	50.00%
Home Refinance	18.76%	8.33%	18.33%	0.00%	26.58%	25.00%	36.33%	66.67%

Source: Loan sample and 2010 U.S. Census data

### **Geographic Distribution of Loans in the Somerset AA**

The distribution of Slovenian’s residential mortgage originations reflects a satisfactory proportion among the Somerset AA geographies considering the context in which Slovenian operates, and meets the standards of satisfactory performance.

Slovenian’s Somerset AA contains no low-income or moderate-income geographies, as indicated by the U. S. 2010 census data reports. There are no CTs within Somerset County designated as distressed and underserved. All of the AAs owner-occupied housing is located within middle-income geographies.

The following table details the distribution of home purchase, investment, and refinancing loans originated by Slovenian during the evaluation period among Somerset AA geographies.

<b>Table 6 - Geographic Distribution of Residential Real Estate Loans in the Somerset AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	0.00%	0.00%
Home Improvement	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	0.00%	0.00%
Home Refinance	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	0.00%	0.00%

Source: Loan Sample and 2010 U.S. Census Data

### **Responses to Complaints in the Somerset AA**

Slovenian did not receive any complaints about its performance in helping to meet credit needs in the Somerset AA during this evaluation period. This criterion is not applicable.

### **Fair Lending or Other Illegal Credit Practices Review in the Somerset AA**

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