



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

August 23, 2012

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

Mid-Southern Savings Bank, FSB  
Charter Number 704817

300 North Water Street  
Salem, Indiana 47167-1708

Office of the Comptroller of the Currency  
Louisville Field Office  
10200 Forest Green Boulevard, Suite 501  
Louisville, Kentucky 40223

**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 major factors supporting this rating include:

- A majority of Mid-Southern Savings Bank's (MSSB) loans were originated within the Assessment Areas (AA).
- MSSB's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.
- MSSB's geographic distribution of loans reflects reasonable dispersion throughout the AA.
- MSSB's loan-to-deposit ratio is reasonable.

## **Scope of Examination**

Mid-Southern Savings Bank was evaluated under the Small Bank examination procedures. These procedures include a lending test to evaluate the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities.

The CRA evaluation period covers the period between May 8, 2007 and August 23, 2012. Conclusions regarding lending performance are based on the bank's primary loan type, residential real estate loans. The residential real estate lending analysis was based on the loans MSSB reported on its 2010 and 2011 Home Mortgage Disclosure Act Loan Application Registers (HMDA LAR). The OCC performed a data integrity review to verify the accuracy of the bank's HMDA data, and concluded the data was reliable. The analysis of the borrower and geographic distribution of loans compares those originated during the testing period to the 2000 U.S. Census demographic information. The income level designations, used in the analysis of the home mortgage loans, are based on the Department of Housing and Urban Development (HUD) adjusted estimate of the Kentucky 2010 and 2011 Median Family Incomes for a Metropolitan Statistical Area (MSA) and non-metropolitan area. The overall rating, under each lending test, is the consolidation of conclusions reached for each full-scope assessment area. When consolidating AAs conclusions into overall ratings and determining conclusions for the lending test, performance in the Washington County, Indiana portion of the Louisville-Jefferson County, KY-IN Metropolitan Statistical Area (MSA) AA was given more weight than performance in the non-Metropolitan AA because MSSB's primary business area is in the MSA. MSSB's presence in Lawrence and Orange Counties is limited to one branch office in each county located relatively close in proximity to the Lawrence/Orange County line.

## **Description of Institution**

Mid-Southern Savings Bank is a federally chartered, stock savings bank 70 percent owned by Mid-Southern Mutual Holding Company and headquartered in Salem, Indiana. As of June 30, 2012, the bank reported \$225 million in total assets, \$202 million in deposits, \$164 million in total loans, and \$22 million in Tier 1 Capital. The bank is a full-service lender offering traditional banking products and services.

Bank locations are accessible to all segments of the community. MSSB operates one main office, two branches, and three Automated Teller Machines (ATM) in three Indiana counties (Lawrence, Orange, and Washington). All three locations are full-service with drive-thru facilities and cash-out only ATMs. The bank's main office is located in downtown Salem with the two branches located in Orleans and Mitchell. By geography, the main office is located in a moderate-income census tract, one branch is located in moderate-income census tract, and the second branch is located in a middle-income census tract. The bank has not opened or closed any branches since the last CRA examination.

The bank's primary lending focus is on home mortgage loans. MSSB also makes loans to businesses, farms, and consumers in the area. As of June 30, 2012, net loans represented approximately 72 percent of the bank's total assets. The loan portfolio mix is as follows: 1-4 family residential real estate loans (64 percent), commercial real estate loans (19 percent), agriculture loans (8 percent), loans to individuals (4 percent), commercial and industrial loans (3 percent), municipal loans (1 percent), and construction and development loans (1 percent).

A Washington County community contact involved with the Washington County business and labor group indicated the overall credit needs of the community are being met by local banks.

There are no legal or financial circumstances affecting the bank's ability to meet community credit needs. MSSB was rated "Satisfactory" at its last CRA evaluation dated May 7, 2007.

## **Description of Assessment Area(s)**

Mid-Southern Savings Bank has delineated two assessment areas (AAs) for CRA purposes. The first AA consists of two counties (Lawrence and Orange) and the second consists of one county (Washington), which is part of the Louisville-Jefferson County, KY-IN Metropolitan Statistical Area (MSA). The AAs conform to the regulatory requirements of CRA, appear appropriate in relation to the location of the bank's offices, and do not arbitrarily exclude any low- or moderate-income areas.

## **Description of Assessment Area 1 (AA1): Lawrence and Orange Counties**

Assessment Area 1 consists of Lawrence and Orange Counties. They are rural counties located in the non-metropolitan portion of South Central Indiana. The 2000 U.S. Census divides the AA into 16 census tracts (CTs), with zero low- and upper-income tracts, three moderate-income tracts, and 13 middle-income tracts. The determination was based on the Indiana HUD estimated 2011 median family income of \$52,900.

AA1 has a total population of 65,228 according to the 2000 U.S. Census. That number had risen to approximately 66,164 in July 2011. The 2000 population was comprised of 26,145 households, of which 11,485, or 44 percent, are considered to have low- or moderate-incomes. Additionally, 11 percent of households in the AA live below the poverty level and 3 percent receive public assistance.

Lawrence and Orange Counties face higher unemployment rates than the state's 8.3 percent average. As of June 2012, the unemployment rate in Lawrence County was 10.1 percent; in Orange County it was 9.3 percent. The Cabinet for Economic Development lists the largest industrial firms:

- Lawrence County: GM Powertrain (engine building), Stone City Products (stone cutting), Whitney Tools & Bedford Machine (tool making), and Judah Medical Practice (medical).
- Orange County: French Lick Springs Hotel (hotel), Paoli, Inc. (office furniture), Wildwood Association, Inc. (homeowners association), Kimball Electronics, Inc. (electronic manufacturing), and Paoli Peaks (ski resort).

Competition from other financial institutions is moderate. The bank's competitors include five large regional banks with total deposits ranging from \$3 billion to \$743 billion and several local community banks. According to the Federal Deposit Insurance Corporation (FDIC) website, 12 banks with 21 offices operate in the counties (MSSB operates two branches located in Mitchell and Orleans). These offices hold a combined total of \$93 million in deposits, as of June 30, 2011, with MSSB having a 14 percent market share. MSSB's market share ranks second.

The following additional demographic information is based on 2000 census data unless otherwise noted.

**AA1: Non-MSA AA of Lawrence and Orange Counties**

Demographic Information for Full-Scope Area: Non-MSA AA of Lawrence and Orange County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	16	0.00	18.75	81.25	0.00	0.00
Population by Geography	65,228	0.00	15.74	84.26	0.00	0.00
Owner-Occupied Housing by Geography	20,668	0.00	14.49	85.51	0.00	0.00
Businesses by Geography	5,849	0.00	17.35	82.65	0.00	0.00
Farms by Geography	337	0.00	7.42	92.58	0.00	0.00
Families by Income Level	18,453	19.89	21.75	24.43	33.93	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	7,685	0.00	19.75	80.25	0.00	0.00
Median Family Income	\$45,666	Median Housing Value				\$71,815
HUD Updated Median Family Income for 2011	\$52,900	Unemployment Rate				See above
Households Below the Poverty Level	11%					

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

**Description of Assessment Area 2 (AA2): Washington County, IN, portion of the Louisville-Jefferson County, KY-IN MSA**

Assessment Area 2 consists of Washington County. AA2 is located in the Louisville-Jefferson County MSA portion of South Central Indiana. The 2000 U.S. Census divides the AA into six census tracts. There are zero low- and upper-income census tracts, one moderate-income tract, and five middle-income tracts. The determination was based on the Indiana HUD estimated 2011 median family income for a metropolitan statistical area of \$62,900.

AA2 has a total population of 27,223 according to the 2000 U.S. Census. That number has risen to approximately 28,147 in 2011. The 2000 population was comprised of 10,245 households, of which 4,334, or 42 percent, are considered to have low- or moderate-incomes. Additionally, 11 percent of households in the AA live below the poverty level and 3 percent receive public assistance.

As of June 2012, Washington County’s 7.5 percent unemployment rate was lower than the 8.3 percent rate for Indiana. The Cabinet for Economic Development lists major employers in Washington County to be Tecumseh Products Co. (transmission-automotive), Kimball Office Salem (wood office furniture), St Vincent Salem Hospital (hospital), Net Shape Technologies, Inc. (metal injection molding), and GKN Sinter Metals (metal parts manufacturer).

Competition from other financial institutions is light. The bank’s competitors include several branches of large regional banks, local community banks, and savings associations. According to the Federal Deposit Insurance Corporation (FDIC) website, six banks with nine offices operate in the county (MSSB operates one branch located in Washington County). These branches hold a total of \$309 million in deposits, as of June 30, 2011, with MSSB maintaining a 31 percent market share. MSSB’s deposits total approximately \$96 million ranking it second in the county.

The following additional demographic information is based on 2000 census data unless otherwise noted.

**AA2: Washington Cnty, IN portion of the Louisville-Jefferson Cnty, KY-IN MSA**

Demographic Information for Full-Scope Area: Washington County, IN portion of the Louisville-Jefferson County, KY-IN MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.00	16.67	83.33	0.00	0.00
Population by Geography	27,223	0.00	11.88	88.12	0.00	0.00
Owner-Occupied Housing by Geography	8,324	0.00	11.40	88.60	0.00	0.00
Businesses by Geography	2,495	0.00	17.23	82.77	0.00	0.00
Farms by Geography	260	0.00	4.62	95.38	0.00	0.00
Family Distribution by Income Level	7,621	22.66	22.28	27.29	27.77	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,425	0.00	14.07	85.93	0.00	0.00
Median Family Income	\$49,301	Median Housing Value				\$77,285
HUD Updated Median Family Income for 2011	\$62,900	Unemployment Rate				7.5%
Households Below the Poverty Level	11%					

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

## Conclusions about Performance Criteria

Mid-Southern Savings Bank's performance under the lending test is Satisfactory.

MSSB's loan-to-deposit ratio is satisfactory and a substantial majority of loan originations were inside the bank's Assessment Areas. MSSB's borrower distribution reflects reasonable penetration among borrowers of different income-levels and businesses of different sizes. The geographic distribution of MSSB's residential and business loans reflects excellent dispersion among geographies.

### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is satisfactory given MSSB's size, financial condition, and assessment area credit needs. The LTD ratio averaged 88 percent over the 21 quarters since the last CRA examination. The bank's ratio reflected a quarterly low of 80 percent and a quarterly high of 96 percent during the assessment period. MSSB's average loan-to-deposit ratio falls between other community banks of similar size, location, and product offerings.

### Lending in Assessment Areas

A majority of MSSB's primary loan product was originated within the bank's assessment areas, which meets the standards for lending in the AAs. The following table details the bank's lending within the AAs by number and dollars loaned. Ninety percent of the bank's primary loan product was originated in the bank's AAs.

<b>Lending in MSA and Non-MSA Assessment Areas (AAs) Residential Loan Originations Between January 1, 2010 and December 31, 2011</b>				
<b>HMDA-Reportable Loans</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Dollar Amt of Loans (000's)</b>	<b>Percent of Loans</b>
<b>Within the Assessment Areas</b>	405	90	33,444	85
<b>Outside the Assessment Areas</b>	44	10	5,848	15
<b>Totals</b>	449	100	39,292	100

Source: Residential Loans - HMDA data for residential loans originated between January 1, 2010 and December 31, 2011.

**Lending to Borrowers of Different Incomes**

Overall, MSSB’s distribution of loans, given the demographics of the AAs, reflects reasonable penetration among low- and moderate-income individuals.

**Performance in Lawrence and Orange Counties - AA1**

MSSB’s record of lending to borrowers of different incomes reflects reasonable penetration in the Non-MSA AA1.

**Table INC-1** shows MSSB’s overall distribution of residential loans reflects reasonable penetration among borrowers of different income levels. The bank’s loan distribution to both low- and moderate-income borrowers represented approximately 12 and 26 percent of all residential loan originations, respectively. Loans to low-income borrowers fell slightly short of the demographic comparator of 20 percent but exceeded the comparator of 22 percent for moderate-income borrowers.

MSSB has barriers to lending in AA1. The U.S. Census reported 11 percent of all households in the community are living below the poverty level and 31 percent receive social security. Living on such a low income makes it especially difficult to afford or maintain a home. Given the small number of home purchases (17 out of 84 total residential real estate loans originated during the assessment period), along with the current economic environment, residential loan distribution is reasonable.

The following table shows the distribution of home loan products among borrowers of different incomes compared to the percentage of families in each income level.

<b>Table INC-1 - Borrower Distribution of Residential Real Estate Loans in Lawrence and Orange Counties - AA1</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Percent of Families within each Income Category</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	6	17	13	12	20
<b>Moderate</b>	18	25	29	26	22
<b>Middle</b>	24	33	25	26	24
<b>Upper</b>	52	25	33	36	34
<b>Total</b>	100	100	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data.

**Performance in Washington County, IN portion of the Louisville-Jefferson County, KY-IN MSA - AA2**

MSSB's record of lending to borrowers of different incomes reflects reasonable penetration in the MSA AA2.

**Table INC-2** shows the bank's overall distribution of residential loans reflects reasonable penetration among borrowers of different income levels.

The bank's loan distribution to low- and moderate-income borrowers represented approximately 29 and 25 percent of all residential loans originated during the assessment period, respectively. Loans to both groups of borrowers exceeded the demographic comparators of 23 percent for low-income borrowers and 22 percent for moderate-income borrowers.

The following table shows the distribution of home loan products among borrowers of different incomes compared to the percentage of families in each income level.

<b>Table INC-2 - Borrower Distribution of Residential Real Estate Loans in Washington County, IN portion of the Louisville-Jefferson County, KY-IN MSA - AA2</b>					
<b>Borrower Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Percent of Families within each Income Category</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	28	26	29	29	23
<b>Moderate</b>	25	29	25	25	22
<b>Middle</b>	25	29	23	24	27
<b>Upper</b>	22	16	23	22	28
<b>Total</b>	100	100	100	100	100

*Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data.*

**Geographic Distribution of Loans**

Overall, MSSB's geographic distribution of loans exhibits excellent dispersion among the low-and moderate-income census tracts. This conclusion is based on the context of the bank's market.

**Performance in Lawrence and Orange Counties - AA1**

MSSB’s record of lending to borrowers in different income census tracts or geographies reflects excellent penetration in Lawrence and Orange Counties - AA1.

**Table GEO-1** shows MSSB’s overall distribution of residential loans reflects excellent penetration among different income census tracts. During the assessment period, the bank’s assessment area contained zero low- and upper-income census tracts, three moderate-income tracts, and 13 middle-income tracts. Information from the HMDA/LAR showed management originated residential loans in all income type CTs. Twenty-two percent of all loans originated during the assessment period were in the moderate-income geographies, exceeding the owner occupied housing comparator of 14 percent.

The following table shows the distribution of home loan products among geographies of different income levels compared to the percentage of owner occupied housing.

<b>Table GEO-1 - Geographic Distribution of Residential Real Estate Loans in Lawrence and Orange Counties - AA1</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Owner Occupied Housing</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	NA	NA	NA	NA	NA
<b>Moderate</b>	42	23	14	22	14
<b>Middle</b>	58	77	86	78	86
<b>Upper</b>	NA	NA	NA	NA	NA
<b>Total</b>	100	100	100	100	100

*Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data. \* The bank has zero low- and three moderate-income census tracts in AA1.*

**Performance in Washington County, IN portion of the Louisville-Jefferson County, KY-IN MSA - AA2**

MSSB’s record of lending to borrowers in different income census tracts or geographies reflects excellent penetration in the Washington County, IN portion of the Louisville-Jefferson County, KY-IN MSA AA2.

**Table GEO-2** shows MSSB’s overall distribution of residential loans reflects excellent penetration among different income census tracts. During the assessment period, the bank’s assessment area contained zero low- and upper-income census tracts, one moderate-income tract, and five middle-income tracts. Information from the HMDA/LAR

showed management originated residential loans in all income type CTs. Twenty percent of all loans originated during the assessment period were in the moderate-income geography exceeding the owner occupied housing comparator of 11 percent.

The following table shows the distribution of home loan products among geographies of different income levels compared to the percentage of owner occupied housing.

<b>Table GEO-2 - Geographic Distribution of Residential Real Estate Loans in Washington County, IN portion of the Louisville-Jefferson County, KY-IN MSA - AA2</b>					
<b>Census Tract Income Level</b>	<b>Loan Originations Between Jan 1, 2010 and Dec 31, 2011</b>				<b>Distribution of Owner Occupied Housing</b>
	<b>Percent of Home Purchases</b>	<b>Percent of Home Improvements</b>	<b>Percent of Home Refinances</b>	<b>Overall Percent Totals</b>	
<b>Low</b>	NA	NA	NA	NA	NA
<b>Moderate</b>	24	9	18	20	11
<b>Middle</b>	76	91	82	80	89
<b>Upper</b>	NA	NA	NA	NA	NA
<b>Total</b>	100	100	100	100	100

Source: HMDA data for 2010 and 2011, and 2000 U.S. Census data. \* The bank has zero low- and one moderate-income census tract in AA2.

## Responses to Complaints

MSSB did not receive any complaints about its performance in helping meet AA credit needs during this evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 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.