



PUBLIC DISCLOSURE

July 08, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Wake Forest FS & LA
Charter Number 700143

302 S Brooks St
Wake Forest, NC 27587-2902

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 Satisfactory

The major factors that support this rating include:

- The bank's quarterly average loan-to-deposit (LTD) ratio is reasonable;
- A majority of the bank's loans are made within its assessment area (AA);
- The distribution of loans to borrowers of different income levels reflects reasonable penetration;
- The geographic distribution of loans reflects excellent dispersion throughout the AA; and
- There were no complaints received during the evaluation period.

SCOPE OF EXAMINATION

We performed a full-scope evaluation of Wake Forest Federal Savings and Loan Association's (Wake Forest) performance using small bank Community Reinvestment Act (CRA) examination procedures. Based upon the bank's business strategy and the loans originated during the evaluation period, we determined that home mortgage loans are the bank's primary loan product. As a result, we reviewed the home mortgage loans reported under the Home Mortgage Disclosure Act (HMDA). The evaluation period for home mortgage loans is January 1, 2012 through December 31, 2013.

In July 2014, we conducted an evaluation of the integrity of Wake Forest's publicly filed HMDA information to verify the accuracy of data. The test included an evaluation of the bank's process to ensure that the data was reliable. The bank's processes, procedures, and internal controls for HMDA data collection, verification, and reporting are satisfactory. Our review disclosed no systemic reporting errors or problems. This CRA evaluation is based on accurate data.

DESCRIPTION OF INSTITUTION

Wake Forest is a federally chartered stock association headquartered in Wake Forest, North Carolina. The bank holding company is Wake Forest Bancorp M.H.C, which owns a majority of the bank's stock. As of March 31, 2014, total assets equaled \$112 million. The bank's Tier One Capital is \$21.9 million and Total Risk Based Capital is \$22.7 million.

Wake Forest conducts business from its sole office in the city of Wake Forest, North Carolina, located in Wake County. As a traditional savings association, Wake Forest concentrates its operations in the origination of home mortgage loans secured by 1-4 single family dwellings and 1-4 single family construction loans funded by local deposits. Home real estate loans represent the majority of the bank's loan portfolio. As a community bank, Wake Forest does not originate mortgage loans for sale on the secondary market, but retains all originated loans in the bank's

portfolio. Wake Forest also offers a wide range of deposit products including personal and business checking accounts, certificate of deposits, and money market accounts. Wake Forest offers online banking and bill pay. Through online banking, customers can make balance inquiries, transfer funds between accounts, and pay bills. The table below reflects the distribution of Wake Forest's loan portfolio as of March 31, 2014.

Wake Forest Federal			
Distribution of Loan Portfolio as of March 31, 2014			
Loan Type	Amount by Loan Type (\$000s)	Total Amount of Loans (\$000s)	% of Total Loans
<i>Commercial Real Estate including Commercial & Industrial</i>			
Non-farm Non-residential Properties	\$15,388	<i>\$15,388</i>	<i>23.15%</i>
<i>Residential Real Estate, including Multifamily</i>			
1-4 Family Residential Secured by 1 st liens	\$30,332		
1-4 Family Residential, open-end	\$1,488		
Multifamily (5 or more) Residential	\$410		
Construction 1-4 Family	\$10,689		
Other Construction	\$7,914	<i>\$50,833</i>	<i>76.47%</i>
<i>Consumer</i>		<i>\$250</i>	<i>0.38%</i>
Total Loans		\$66,471	100.00%

Wake Forest faces significant competition from numerous financial institutions. According to June 30, 2014 Federal Deposit Insurance Corporation's deposit data, there are 32 other banks operating in Wake County, North Carolina. Wake Forest ranks 18th in total deposits with .42 percent market share of deposits. Wells Fargo, PNC Bank, and BB&T have the largest market shares with 29.66 percent, 14.11 percent, and 13.94 percent, respectively.

During the period from 2008 through 2012, the bank was impacted by slow economic conditions that adversely affected Wake Forest's loan demand. Unemployment rates in Wake County grew from 4.7 percent in 2008 to 8.1 percent, 8.6 percent, and 8.1 percent in 2009, 2010, and 2011, respectively. The bank's small size affects its ability to successively compete with the low interest rate and longer term loans available on the secondary market. Due to interest rate concerns, Wake Forest has sought to originate shorter term loans with higher interest rates as well as construction loans.

There are no known legal, financial or other factors impeding Wake Forest's ability to help meet the credit needs of its AA. The bank received a "Satisfactory" CRA rating in the last CRA public evaluation dated December 31, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

Wake Forest’s AA consists of 17 contiguous census tracts in the northern portion of Wake County and the southern portion of Franklin County in North Carolina. Wake and Franklin County are part of the Raleigh-Cary, North Carolina Metropolitan Statistical Area. The AA does not arbitrarily exclude low- or moderate-income census tracts and meets regulatory requirements of the CRA.

Wake Forest’s AA consists of six moderate-income census tracts, eight middle-income census tracts, and three upper-income census tracts. There are no low-income census tracts. The following table highlights certain demographic characteristics of Wake Forest’s AA:

WAKE FOREST FEDERAL SAVINGS AND LOAN ASSOCIATION ASSESSMENT AREA DEMOGRAPHICS						
Based upon 2010 Census Data						
CENSUS TRACT INCOME LEVEL¹						
		TOTAL	LOW	MODERATE	MIDDLE	UPPER
CENSUS TRACTS/BNAs	#	17	0	6	8	3
POPULATION	#	109,191	0	38,019	51,375	19,797
BY LOCATION		100.00%	0.00%	34.82%	47.05%	18.13%
% OWNER OCCUPIED		100.00%	0.00%	34.42%	47.78%	17.80%
% RENTER OCCUPIED		100.00%	0.00%	41.30%	43.49%	15.21%
% VACANT		100.00%	0.00%	46.51%	39.30%	14.20%
MEDIAN HOUSING VALUE		\$210,696	0	\$145,175	\$203,334	\$373,869
UPDATED MEDIAN FAMILY INCOME FOR 2013		\$75,300				
% OF FAMILIES BELOW POVERTY LEVEL		7.04%				

The largest employers in Wake County include the State of North Carolina, Wake County Public Schools, Wake MedHealth and Hospital, and North Carolina State University. As of June 2014, the unemployment rate in Wake County was 5.1 percent, which was lower than the unemployment rate in the state of North Carolina (6.4 percent).

During this evaluation, we made a community contact to determine the credit needs and local economic conditions of the AA. According to the contact, local economic conditions in Wake Forest remain above economic conditions of other areas. The local area continues to experience growth in new commercial developments and construction of new single-family dwellings. While local financial institutions are responsive to home mortgage lending needs, the contact indicated that small businesses face difficulty obtaining financing for startup capital and equipment purchases.

¹ 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

Wake Forest’s overall lending performance is satisfactory. This conclusion is based upon the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. All criteria of the specific lending tests are documented below.

Loan-to-Deposit Ratio

Wake Forest’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and credit needs of the AA. We reviewed the bank’s quarterly LTD ratio for the 23 quarters beginning December 31, 2008 through March 30, 2014. Since our last CRA evaluation, the bank’s quarterly average LTD ratio is 75.96 percent. The bank’s LTD ratio ranged from a quarterly low of 70.24 percent to a quarterly high of 87.15 percent. The bank’s quarterly LTD ratio compares favorably to the average quarterly LTD ratio among similarly sized banks in North Carolina was 74.60 percent. The peer average LTD ratio over the same 23 quarters ranged from a low of 66.76 percent to a high of 85.28 percent.

Lending in Assessment Area

The bank originated the majority of its home mortgage loans inside the AA. During the evaluation period, our review of HMDA loans revealed that 55 percent in number and 48 percent in dollar volume are made in the AA. The following table reflects the bank’s record of HMDA-reportable loan originations within the AA.

Table 1 - Lending in Wake Forest AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	30	54.54%	25	45.45%	55	\$3,920	47.96%	\$4,254	52.04%	\$8,174
Totals	30	54.54%	25	45.45%	55	\$3,920	47.96%	\$4,254	52.04%	\$8,174

Source: 2012 and 2013 HMDA Data Reported

Lending to Borrowers of Different Incomes

The distribution of borrowers reflects reasonable penetration among borrowers of different income level. Table 2 presents the percentage of lending to borrowers of different income levels within the AA and compares it to the percentage of families in each income category. The distribution of loans to low-income borrowers was poor compared to the percentage of low-income families in the AA. However, we considered that family poverty rates may impact lending opportunities among low-income borrowers. According to 2010 Census data, 7.04 percent of total families in the AA are below the poverty level. Families below poverty may lack financial resources to obtain mortgage loans. In addition, lending opportunities to low-income borrowers may also be limited given the median home price in the AA of \$210,696. Low-income borrowers may have difficulty purchasing a home as their income would be less than \$37,665.

Wake Forest’s percentage of lending activity to borrowers of different income levels was compared to the lending activity of other lenders in the AA subject to HMDA reporting requirements. As reflected below, the bank's distribution of loans to low-income borrowers was lower than the percentage of loans to low-income borrowers originated by other lenders. The bank's distribution of loans to moderate-income borrowers was near to the percentage of loans originated by other lenders.

Table 2 - Distribution of Home Loans By Borrower Income Level in the Assessment Area				
Borrower Income Category	% of # Loans	% of \$ Volume	% Family Distribution	% of # Aggregate
Low	5.26%	4.73%	22.98%	8.66%
Moderate	15.79%	10.67%	19.91%	19.16%
Middle	26.32%	15.85%	19.74%	26.21%
Upper	52.53%	68.75%	37.37%	45.97%
Total	100.00%	100.00%	100.00%	100.00%

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

Geographic Distribution of Loans

Wake Forest’s geographic distribution of loans reflects excellent dispersion in the AA. Table 3 represents the geographic distribution of loans compared to the percentage of owner-occupied housing units in each census tract. The distribution of loans in moderate-income census tracts exceeded the percentage of owner-occupied housing units in moderate-income census tracts.

Wake Forest’s geographic distribution of loans was compared to lending activity of HMDA lenders within the AA. As reflected below, the bank’s distribution of loans in moderate-income census tracts exceeded the aggregate percentage of lending in moderate-income census tracts.

Table 3 - Distribution of Home Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	% of # Loans	% of \$ Volume	% Owner Occupied	% of # Aggregate
Low	0.00%	0.00%	0.00%	0.00%
Moderate	43.33%	38.55%	34.42%	21.05%
Middle	40.00%	36.98%	47.78%	54.49%
Upper	16.67%	24.46%	17.80%	24.36%
Total # or \$	100.00%	100.00%	100.00%	100.00%

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

Community Development Loans

Since the preceding evaluation, Wake Forest continues to participate in the Community Investment Corporation of the Carolinas (CICCAR). Wake Forest purchased fourteen CICCAR participation loans totaling \$455,000. In 2014, the bank committed to participate in five additional CICAR affordable housing loans totaling \$700,000. These new commitments include a \$500,000 in an affordable apartment complex to be located in Wake Forest, North Carolina. CICCAR, an affordable housing loan consortium of the North Carolina Bankers Association, provides long-term permanent financing for multi-family low- and moderate-income housing projects by selling participation interests to members of the organization. To qualify for financing, at least 51 percent of the housing units must provide housing for individuals earning no more than 60 percent of the area median family income. Additionally, residents cannot spend more than 30 percent of their monthly income on housing. Most of the CICCAR developments receive an allocation of Federal housing tax credits and have some sort of subordinated debt. This leveraged funding comes from city, county, federal HOME funds, affordable housing grants, and state housing trust funds.

Responses to Complaints

During the evaluation period, there were no complaints received by Management related to the bank's 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.