



PUBLIC DISCLOSURE

August 05, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lafayette Savings Bank, F.S.B.
Charter Number 708050

101 Main St. Lafayette, IN 47901-1243

Office of the Comptroller of the Currency

Indianapolis Field Office 8777 Purdue Road, Suite 105 Indianapolis, IN 46268

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.

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Satisfactory.

Lafayette Savings Bank, FSB (LSB or bank) has an outstanding record in meeting the credit needs of its community. Factors supporting the Outstanding rating include:

- More than reasonable loan-to-deposit (LTD) ratio;
- Substantial majority of primary product loans inside the assessment area;
- Excellent dispersion of loans to low- and moderate-income areas;
- Adequate responsiveness to community development needs; and,
- No written complaints during the review period regarding the bank's CRA performance

Scope of Examination

Examiners utilized the Intermediate Small Bank (ISB) examination procedures to evaluate the bank's record of meeting the credit needs of its community. ISB procedures include a Lending Test and a separate Community Development Test. The review period for the Lending Test is January 1, 2010 through December 31, 2011 (2012 lending data is not included in this review due to the 2010 Census and its impact on data comparability). The Community Development Test will consider all activities during the official review period; August 16, 2010 through August 05, 2013. This is the period since the last CRA examination to the beginning of this examination. Demographic data is from the 2000 Census unless otherwise noted.

LENDING TEST

Under the Lending Test, we evaluate an institution's record of meeting the needs of its assessment based on the following criteria:

- Loan-to-deposit ratio, while considering internal and external factors
- Percentage of primary product loans originated within the bank's assessment areas
- Lending to borrowers of different income levels; primarily low- and moderate-income individuals
- Lending in low- and moderate-income geographies in the assessment area
- The bank's record of taking action to written complaints regarding its performance in helping to meet credit needs of its assessment area.

The Lending Test focused on the bank's primary lending product; residential mortgage loans reported under the Home Mortgage Disclosure Act (HMDA). As previously stated, the review period for these loans is the whole calendar years 2010 and 2011. We conducted our lending

analysis by comparing the bank's combined 2010 and 2011 lending data to the 2011 HMDA aggregate data (peer). This peer data is compiled from financial institutions that reported HMDA lending activity within the assessment area.

COMMUNITY DEVELOPMENT TEST

The Community Development Test evaluates an ISB's performance based on its responsiveness to the needs of its assessment area. Credit is earned through eligible community development loans, qualified investments, and community development services. The adequacy of a bank's responsiveness depends on its capacity for community development activities, the assessment area's needs, and the availability of opportunities within the assessment area. A contact in the local community noted a need for financial education among low- and moderate-income individuals.

The bank provided information and supporting documentation for its community development loans, investments, and services. We sampled the activities to ensure eligibility; see the *Community Development* section of this report for details.

Description of Institution

Lafayette Savings Bank is a federally chartered, stock institution operating five branches in Tippecanoe County, Indiana. The bank is headquartered in Lafayette, IN and is wholly owned by LSB Financial Corporation, a unitary, non-diversified thrift holding company. As of June 30, 2013 LSB reported assets totaling \$365.9 million.

LSB is a community-oriented financial institution, whose principal line of business involves financing first mortgage loans secured by owner-occupied, 1-4 family residences. LSB also originates significant levels of non-owner-occupied residential loans and commercial real estate loans. In addition, it offers multi-family, construction/development, commercial non-mortgage, and consumer loans. The bank also offers loans insured or guaranteed by the Federal Housing Administration, Veterans Administration, and the United States Department of Agriculture.

Table 1 shows a summary of LSB’s loan portfolio as of December 31, 2012.

| Table 1 LSB’s Investment in Loans (12/31/2012 Thrift Financial Report) | | | |
|---|-------------------------|-------------------------------|--------------------------------|
| Loan Category | Amount (\$000’s) | Percent of Total Loans | Percent of Total Assets |
| Residential Real Estate | \$261,717 | 91.0% | 71.8% |
| Commercial Loans | 13,151 | 4.6% | 3.5% |
| Construction Loans | 11,551 | 4.0% | 3.2% |
| Consumer Loans | 1,135 | 0.4% | 0.3% |
| Total | \$287,554 | 100.0% | 78.8% |

The bank’s ability to meet the credit needs of its assessment area is not impaired by its financial condition or other impediments. LSB was assigned a rating of “Outstanding” in its prior CRA Performance Evaluation, dated August 16, 2010.

Description of Assessment Area

The assessment area consists of Tippecanoe County, Indiana, which is approximately 60 miles northwest of Indianapolis. Tippecanoe County is one of three counties that constitute the Lafayette, Indiana MSA. Purdue University, located in neighboring West Lafayette, is the county’s largest employer with over 15,000 employees. The number two employer, Subaru of Indiana Automotive, has approximately 3,600 employees and recently announced a hiring increase of 900. As a major college community, the assessment area has a large transient population and a relatively high percentage of rental housing units.

Table 2 shows selected demographic data of the assessment area.

| Table 2 - Demographic Data (Based on 2000 U.S. Census Data) | |
|--|--------------------|
| Demographic Data | 2000 Census |
| Population | 148,955 |
| Total Families | 32,644 |
| 1-4 Family Units | 44,078 |
| Multi-family Units | 14,265 |
| % Owner-Occupied Units | 52.9% |
| % Rental-Occupied Units | 41.7% |
| % Vacant Housing Units | 5.4% |
| Weighted Average Median Housing | \$114,253 |

The table below illustrates the number of geographies based on income and the distribution of families living in those geographies.

| Table 3 - Distribution of Geographies, Families and Housing Units In the Assessment Area | | | | | | |
|---|--------------------|---------------|----------------------------|---------------|-----------------------------|---------------|
| Geographic Income Category | Geographies | | Total Area Families | | 1-4 Family Dwellings | |
| 2000 Census: | # | % | # | % | # | % |
| Low | 4 | 10.8% | 1,006 | 3.1% | 1,018 | 2.3% |
| Moderate | 6 | 16.2% | 4,321 | 13.2% | 6,281 | 14.3% |
| Middle | 16 | 43.3% | 16,632 | 51.0% | 22,877 | 51.9% |
| Upper | 10 | 27.0% | 10,685 | 32.7% | 13,902 | 31.5% |
| Income NA | 1 | 2.7% | 0 | 0.0% | 0 | 0.0% |
| Total | 37 | 100.0% | 32,644 | 100.0% | 44,078 | 100.0% |

The Department of Housing and Urban Development (HUD) annually adjusts the 2000 census data to update the Median Family Income (MFI) levels. The updated figures were used in the *Lending to Borrowers of Different Income Levels* section of this evaluation. The HUD estimated MFI for the Lafayette MSA was \$60,700 for 2010 and \$62,300 for 2011.

Table 4 represents the distribution of assessment area families, based on the 2000 Census, in each income category.

| Table 4 - Distribution of Families in Assessment Area | | |
|--|---------------|----------------|
| Income Category (% of MSA Median) | Number | Percent |
| Low (<50%) | 6,012 | 18.4% |
| Moderate (50 < 80) | 6,100 | 18.7% |
| Middle (80 < 120) | 7,752 | 23.8% |
| Upper (≥ 120) | 12,780 | 39.1% |
| Total | 32,644 | 100.0% |

Also according to the 2000 Census, 15.5 percent of the families in the assessment area have income below the poverty level. The data also indicates 18.8 percent of the assessment area population earns social security benefits, and approximately 2.1 percent receive some type of public assistance.

As of June 30, 2012, 16 financial institutions, including LSB, operated 54 branches in the assessment area with deposits totaling over \$2.0 billion. LSB’s five branches in the area represent \$311.4 million, or 15.3 percent of the market share (ranks third of 16 institutions). The assessment area’s unemployment rate in June 2013 was 8.6 percent. This is comparable to the Indiana state rate (8.7 percent) and higher than the national rate (7.6 percent) for the same period.

Conclusions with Respect to Performance Tests

LENDING TEST

LSB’s performance in helping meet the needs of its assessment area through lending is excellent.

Loan-to-Deposit Ratio

LSB’s quarterly loan-to-deposit (LTD) ratio averaged 93.6 percent during the previous eight quarters ended June 30, 2013. The ratio ranged from 101.2 percent on September 30, 2011 to 85.3 percent on June 30, 2013. This ratio is well above the average peer banks¹ (82.1 percent) during the same period. LSB’s ratios have consistently been above the peer ratios; this performance is considered excellent.

Lending in Assessment Area

LSB originated a substantial majority of HMDA loans (760 of 882 or 86.2 percent) inside the Tippecanoe County assessment area during the review period. This substantial majority exceeds the standards for satisfactory performance and is considered excellent.

| Table 5 Concentration of Residential Loans 1/1/2010 – 12/31/2011 <i>(Dollars in thousands)</i> | | | | | |
|--|--------------------|-------|-------------------------|-------|------------------|
| | In Assessment Area | | Outside Assessment Area | | Total Res. Loans |
| <i>By Number:</i> | # | % | # | % | # |
| Total | 760 | 86.2% | 122 | 13.8% | 882 |
| <i>By \$ Amount:</i> | \$ Amt | % | \$ Amt | % | \$ Amt |
| Total | \$122,917 | 88.4% | \$16,137 | 11.6% | \$139,054 |

¹ Banks with total assets of between \$300 and \$1 billion.

Geographic Distribution of Loans

The bank’s geographic distribution of loans within the assessment area is excellent. Tippecanoe County consists of 37 tracts; four are low-income and six are moderate-income. LSB’s lending within the low- and moderate-income tracts each exceed the 2011 aggregate data. This is a result of LSB’s originations of large multi-family loans, primarily student housing apartment buildings, in these geographies.

| Table 6 - Distribution of HMDA-Reportable Loans By Geography Income Level in the Assessment Area | | | |
|---|--|----------|------------------------------------|
| Borrower Income Level | Lafayette FSB 01/01/2010 – 12/31/2011 | | HMDA Aggregate 2011 |
| | # | % | |
| Low | 9 | 1.2% | 0.4% |
| Moderate | 52 | 6.8% | 5.0% |
| Middle | 315 | 41.5% | 45.9% |
| Upper | 384 | 50.5% | 48.7% |
| Total | 760 | 100.0% | 100.0% |

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

For this performance factor, examiners compared LSB’s ratios of lending to low- and moderate-income borrowers in the assessment area to the 2011 HMDA aggregate data. The following table represents LSB’s borrower income distribution of residential lending in the assessment area.

| Table 7 - Comparison of Residential Mortgage Loans By Borrower Income Level in the Assessment Area | | | |
|---|--|----------|------------------------------------|
| Borrower Income Level | Lafayette FSB 01/01/2010 – 12/31/2011 | | HMDA Aggregate 2011 |
| | # | % | |
| Low | 40 | 5.3% | 9.9% |
| Moderate | 84 | 11.1% | 16.1% |
| Middle | 178 | 23.4% | 20.9% |
| Upper | 387 | 50.9% | 32.7% |
| N/A | 71 | 9.3% | 20.4% |
| Total | 760 | 100.0% | 100.0 |

The bank's ratios of lending to low- and moderate-income borrowers are both less than the HMDA aggregate group. Despite the weaker ratios, LSB remains a community leader in lending to low- and moderate-income borrowers. Based on 2011 lending data for Tippecanoe County, the bank ranks sixth among 54 lenders in volume of loans to low- and moderate-income borrowers. It appears the bank's higher volume of lending to upper-income borrowers (the bank ranks second in lending to this demographic) dilutes the overall lending portfolio and distorts the bank's otherwise positive record in lending to lower-income borrowers.

Based on the above information, LSB's performance is considered reasonable and reflects good penetration among individuals of different income levels, including low- and moderate-income.

Responses to Complaints

No complaints regarding the bank's performance in meeting the credit needs of the assessment area were received since the last evaluation.

COMMUNITY DEVELOPMENT TEST

Overall, we determined LSB's responsiveness to community development needs is adequate.

Community Development Loans

The following is a summary of the bank's community development lending during the review period:

- Eleven loans totaling \$11.5 million for the purchase or refinance of apartment buildings to revitalize or stabilize low or moderate-income geographies of Lafayette and West Lafayette during the review period.
- One loan totaling \$292 thousand for renovations to an apartment complex that provides temporary housing for homeless families.

The level of community development lending is adequate.

Qualified Investments

LSB made the following qualified investments during the review period:

- Tippecanoe County Indiana Government Building Bonds totaling \$351,556.
- Two Lafayette Indiana Redevelopment Authority Redevelopment Bonds totaling \$285,000.
- We reviewed an additional five organizations where the bank's donations totaled \$52,300. The various local community organizations provide services and promote affordable housing initiatives to low- and moderate-income individuals.

This level of community development investment is excellent.

Community Development Services

LSB continues to collaborate with local community housing organizations to obtain funding from the Federal Home Loan Bank of Indianapolis' Homeownership Opportunities Program (HOP) and Neighborhood Impact Program (NIP). HOP assists first-time homebuyers (with income equal to or less than 80 percent of the area median income) with downpayment and closing costs, improving the homebuyer's eligibility for mortgage financing. NIP provides financial assistance to existing homeowners (again, at or below 80 percent of the area median income) to rehabilitate their homes. During the review period, LSB disbursed over \$582 thousand in funds related to these initiatives.

We reviewed an additional five organizations where LSB employees volunteer their time and financial expertise. The organizations serve low- and moderate-income individuals and geographies in Tippecanoe County. In particular, the Lafayette Transitional Housing Corp. provides housing to families in need and opportunities to foster self-sufficiency. The roles of bank staff include serving as treasurer, on the board of directors, and various finance committees. In addition to the above activities, the bank's main branch is located in and serves a moderate-income tract.

The level of community development service is excellent.

Responsiveness to Community Development Needs

LSB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its assessment area. This evaluation considers the bank's capacity, the performance context, and availability of community development opportunities in the institution's assessment area.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 195.28(c), in determining a Federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the 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.