



PUBLIC DISCLOSURE

March 10, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

United Midwest Savings Bank

Charter Number 708266

101 South Main Street De Graff, OH, 43318

Office of the Comptroller of the Currency

Metro Center V, 655 Metro Place South, Suite 625, Dublin, Ohio 43017

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.

Table of Contents

Institution's CRA Rating.....	3
Scope of Examination.....	3
Description of Institution.....	4
Selection of Areas for Full Scope Review.....	7
Loan to Deposit Ratio.....	8
Lending in the Assessment Areas.....	8
Fair Lending or Other Illegal Credit Practices Review.....	9
CRA Rating for the State of Ohio.....	9
CRA Rating for the State of Florida.....	15
CRA Rating for the State of Kentucky.....	18
Lending Outside the Assessment Area.....	20

Institution's CRA Rating: This institution is rated **Satisfactory**.

The Lending Test is rated: **Satisfactory**.

- **United Midwest Savings Bank's (UMSB or thrift) loan-to-deposit ratio is more than reasonable.**
- **UMSB's lending activity in its AAs is adequate given performance context factors and penetration to LMI borrowers even though a substantial majority of loans are outside its assessment areas (AAs).**
- **Lending to borrowers of different incomes within the AAs represents reasonable penetration.**
- **Lending to different geographies within the AAs represents reasonable dispersion.**
- **Lending outside of the AAs is satisfactory given performance context, community development lending, and loan modifications for low- and moderate-income borrowers.**

Scope of Examination

Our office evaluated United Midwest Savings Bank's performance in complying with the requirements of the Community Reinvestment Act (CRA). The evaluation included an assessment the thrift's lending activities within each of its communities. We also considered the thrift's performance in providing credit to low- and moderate-income borrowers and geographies. Due to the thrift's non-traditional business model and current legal/financial impediments, we also assessed lending performance outside of its assessment areas (AAs). These considerations are further developed in subsequent sections of the performance evaluation.

The review period was from July 7, 2008 (date of the prior performance evaluation) to March 10, 2014. We used small savings institution procedures to evaluate the thrift's performance under the Lending Test. The Lending Test included an assessment of loans originated from January 1, 2012 to December 31, 2013.

The evaluation included a full-scope review of the thrift's primary loan products, including commercial loans and consumer loans. During the review period, the thrift originated 92 commercial loans totaling \$104.6 million, and 4,993 consumer loans totaling \$30.7 million. The thrift also originates other types of loans, but volumes were immaterial. We sampled 20 commercial and 20 consumer loans originated during 2012 and 2013. However, the initial sampling did not yield any loans in the thrift's AAs. Therefore, we manually identified all small business and consumer loans made to borrowers in any of the thrifts AAs, and used the entire population to complete Borrower Income and Geographic Distribution analysis. We used 2010 Census data to evaluate the loans originated from 2012 to 2013 in relation to population demographics.

We also used the loans from our initial random sample to assess the thrift's lending activity outside of its AAs.

The thrift has five AAs located in three states (Ohio, Kentucky, and Florida). Each AA consists of single whole counties. The thrift has one branch office in each of the five AAs. The three AAs located in Ohio include Logan County (non-MSA), Preble County (located in Dayton MSA; #19830), and Franklin County (located in Columbus MSA; #18140). The AA located in Kentucky includes all of Pendleton County (located in Cincinnati-Middletown MSA; #17140). The AA located in Florida includes all of Seminole County (Orlando-Kissimmee-Sanford MSA; #36740). We assigned Lending Test performance ratings to Ohio, Kentucky, and Florida.

Description of Institution

United Midwest Savings Bank is a federally chartered thrift and wholly owned subsidiary of MSB Capital Corporation. As of December 31, 2013, the thrift had total assets of \$180 million. The thrift has five full service branches located in Ohio (3), Kentucky (1), and Florida (1). The branches are located in Franklin, Preble, and Logan counties in Ohio, Pendleton County in Kentucky, and Seminole County in Florida. The deposit base, which accounts for over 99% of total liabilities, comes from the communities directly surrounding the branch offices. According to 2010 US Census data, one branch is located in a moderate-income census tract (Pendleton County), three branches are located in middle-income tracts (Franklin County, Preble County, and Logan County), and one branch is located in an upper income tract (Seminole County). Four of the five branches (with the exception Franklin County) also have automated teller machines.

UMSB received a rating of Satisfactory at the previous CRA examination dated July 7, 2008.

Non-traditional Business Model

UMSB has a non-traditional lending model that distributes its two primary products to a nationwide market, mostly through broker originations. The two primary products are highly specialized niches within the commercial and consumer markets. The thrift originated a very low volume of traditional residential mortgages during our review period (6 total originations in 2012 and 2013 combined).

Commercial Lending

Primary lending activity is focused on commercial loans that qualify for partial guarantees through various US government lending programs (Small Business Administration, US Department of Agriculture).

The substantial majority of commercial loans originated in our review period were either SBA 504 or SBA 7a program loans. The thrift has further narrowed its lending focus by targeting borrowers with traditionally low credit risk and need for owner-occupied commercial real estate financing. Due to the specialized credit markets in which the thrift participates, the borrowing base is nationwide with no apparent geographic concentrations.

New commercial loan originations come from a national network of brokers with a relatively small number generating a substantial portion of the business. The thrift focuses its advertising efforts on its selected niches through publications, conferences, and trade shows.

Consumer Lending

The other primary product is consumer loans. The line of business is largely the responsibility of First Mutual Financial (“FMF”), which is a division of UMSB. Similar to the commercial line of business, the consumer loan portfolio consists of a nationwide borrowing base and a narrow niche market. The majority of the loans are for a small dollar volume for the purchase of musical instruments. UMSB relies on third party brokers to establish relationships with instrument vendors. Due to the focus of the lending activities, the thrift has to have a national borrowing base to originate the types of loans that management and the Board of Directors find desirable. A small number of traditional consumer loans have been originated through the thrift’s retail branch network. These are generally the only loans made within the bank’s AAs.

Financial and Legal Impediments

UMSB has significant financial and legal impediments that affect its ability to meet the credit needs of its AA. The thrift is currently operating under a Cease and Desist Order (C&D) dated April 7, 2010. The C&D prohibits most types of non-homogenous loan originations without prior OCC approval.

This limits the thrift’s ability to make commercial loans within their assessment area due to both competition and lack of demand for this niche product. The term and loan-to-value requirements of SBA guaranteed loans make it difficult to compete with other institutions in the thrift’s urban markets, and the niche nature of the product makes it unlikely that sparsely populated areas would generate substantial demand.

The need to manage loan portfolio risk strictly has kept the thrift from extending lending activities substantially outside its areas of expertise. This has affected both consumer and commercial lending. The need to reduce classified assets has contributed to the focus on traditionally low credit risk industries in the commercial portfolio (i.e. doctors, funeral homes, and insurance agencies).

Based on management’s experience, these types of borrowers generally have low losses, and delinquency rates in comparison to other types of commercial borrowers (non-owner occupied commercial real estate). This also applies to the consumer portfolio where the focus has been on the national musical instrument market.

Prior to the C&D, CRA assessment was based primarily on the thrift’s residential lending activities. Although the thrift was active in the residential real estate market, its business was primarily in residential construction, rehabilitation, and non-owner occupied investment properties. The C&D restricts most of the residential loan products the thrift previously specialized in originating.

Other Loan Data

Although the thrift only had six residential mortgage originations during the review period, they engaged in sixteen loan modifications with residential borrowers. Several of these loans benefited LMI individuals. The following table shows the loan modification activity inside and outside of UMSB0’s AAs:

Table 1 - Residential Real Estate Loan Modifications				
Inside		Outside		Total
#	%	#	%	
6	37.5%	10	62.5%	16

In total, there were six loan modifications to borrowers in the thrift’s AAs, several of which benefitted low- or moderate-income borrowers.

Table 2 - Borrower Distribution, Residential Real Estate Loan Modifications						
Low-Income		Moderate-Income		Middle- and Upper-Income		Total
#	%	#	%	#	%	
4	25.0%	3	18.7%	9	56.3%	100%

Community Development

UMSB ownership, management, and staff are involved with community services benefiting low- and moderate- income families/ individuals in the State of Ohio, and other market areas.

Franklin Foundation

UMSB’s primary shareholder is the founder of Franklin Foundation, and serves on its’ board of directors. Franklin Foundation facilitates the establishment of senior citizen housing geared toward low- and moderate-income individuals.

The Foundation is active throughout the State of Ohio, and to date has facilitated the establishment of approximately 14 facilities. In addition to the primary shareholder's relationship with Franklin Foundation, UMSB has provided the foundation with several letters of credit, which have facilitated portions of new development projects.

Everfi

UMSB, through its relationship with an organization called Everfi, has donated \$18 thousand to high schools in its AAs during our review period. The donations help to fund financial literacy programs and courses for the students. The funds went to four different high schools over the course of two school years. Each school in the program has a significant "economically disadvantaged" population based on State of Ohio demographic data.

Big Brothers Big Sisters

The thrift has an ongoing relationship with the Big Brothers Big Sisters Program. UMSB has provided a \$1,200 grant to Big Brothers Big Sisters to send two local children to a camp. Additionally, CRA Officer Laura Herring mentors a student from a local middle school. Among mentoring topics was budgeting basics.

Take Stock in Children

UMSB maintains a relationship with Take Stock in Children, which targets low- and moderate- income students. The organization is in the Lake Mary, Florida area. The branch manager at the Florida location mentors students approximately once per week. This program also covers budgeting basics and financial products.

Selection of Areas for Full Scope Review

UMSB has identified five distinct assessment areas (AAs) for CRA purposes. The AAs meet regulatory requirements, include whole geographies, and do not arbitrarily exclude low- or moderate-income geographies. The AAs are not reflective of illegal discrimination.

We included all five AAs in our full-scope review. The AAs each consist of single whole counties located in Ohio, Kentucky, and Florida.

We assigned Lending Test ratings to the State of Ohio, the State of Kentucky, and the State of Florida.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Ratio

UMSB's loan-to-deposit (LTD) ratio was more than reasonable during the review period given the size and financial condition of the institution. UMSB had a 23-quarter average LTD ratio of 97 percent from 2nd quarter 2008 to 4th quarter of 2013. This is compared to a peer group average (including UMSB) of 82 percent during the same period. The peer group consists on lending institutions located in the thrift's AAs with total assets less than \$1 billion.

Lending in the Assessment Area

UMSB originated a substantial majority of primary product loans outside its AAs during our review period.

Because the random sample of 20 commercial and 20 consumer loans did not yield any loans to borrowers within the AA, we completed a portfolio wide analysis of lending in the AA. The following table displays the total number of loans made in any the thrift's AAs for both primary loan products during 2012 and 2013:

Table 4 - Lending in the Assessment Areas (Whole Portfolio)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside (000s)		Outside (000s)		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	0	0%	92	100%	100%	0	0%	\$104,626	100%	100%
Consumer Loans	51	1%	4942	99%	100%	165	1%	\$30,590	99%	100%
Totals	51	1%	5034	99%	100%	165	1%	\$135,216	99%	100%

A portfolio wide analysis of the thrift's two primary products indicates limited lending by volume within the AA.

Lending in AA Conclusion

Despite the low volume of lending within the AAs, performance within the thrift's AAs is adequate. UMSB's non-traditional business model, financial and legal impediments to lending, penetration of consumer credit to LMI borrowers in the AAs, and community development activities mitigate the results of the In/Out analysis and overall low volume of AA loans.

Analysis of peer data and active institutions in each of the thrift's AAs indicates that the communities are not lacking access to financial services. The thrift has a small

percentage of deposit market share in relation to its competitors in each AA. Community contact data indicates financial institutions meet the credit needs of the communities. Credit needs include provision of LMI housing, flexible mortgage products, and general operational support. Community contact data is for Franklin County and Seminole County.

The provision of credit to LMI borrowers within the AA further mitigates the low volume. Of the 51 loans originated within the bank's AA, 14 (27.4%) were made to moderate-income borrowers, and 18 (44%) were made to low-income borrowers. Each of these exceeds assessment area demographics. The provision of credit to LMI borrowers in individual AAs is further developed in the State and multi-state MSA Lending Test sections.

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's) 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 FSA's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

State Rating

State of Ohio

CRA Rating for Ohio: Satisfactory

Lending Test is rated: Satisfactory

Description of Institution's Operations in Ohio

UMSB has three branch locations located in Ohio. The three branches are each in a separate assessment area and county.

Logan County (Non-MSA)

As of June 30, 2013 (most current information available from the FDIC), UMSB had \$20.8 million in deposits from the Logan County branch. This places the thrift 10th out of 13 for deposit share institutions operating in the area. Institutions in the area consist of branches of regional companies, and smaller institutions. Based on market data from the FDIC, residents of in the area have numerous options for obtaining financial services.

The Logan County office is located in the village of De Graff, Ohio, which is a rural area that is not part of a metropolitan statistical area. The population in De Graff was under 2,000 in 2012. The AA total population based on 2010 US Census Data is 45,858. The county consists of eleven census tracts. This includes no low-income tracts, 2 moderate-income tracts, 8 middle-income tracts, and 1 upper-income tract. Approximately 12% of households are living below the poverty level. The 2013 HUD-adjusted median family income in 2013 was \$53 thousand.

Economic indicators appear to be improving, and better than the State of Ohio as a whole. As of December 31, 2013, the county had an unemployment rate of 5.7%, which compared favorably to all of Ohio, which had an unemployment rate of 6.6%. Major employment includes retail services, and various government entities (public school districts).

Franklin County (Columbus MSA)

As of June 30, 2013, UMSB had \$62.4 million in deposits coming from the Franklin County branch. This gives the thrift a 0.15% share of deposits in the overall market (26th of 34 institutions in the area). The Franklin County MSA is an urban area with a large population, and heavy competition among financial service companies. UMSB's office is in the upper northwest corner of the county and surrounded by middle and upper income census tracts. Community contacts indicate that local financial institutions are adequately serving the area.

The Franklin County office is located in the Columbus MSA. The AA population based on 2010 Census Data is 1,163,414. The AA has 282 census tracts and includes 63 low-income, 77 moderate-income, 76 middle-income, and 66 upper-income tracts. Households below the poverty line are 15% based on the most recent census data. The 2013 HUD-adjusted median family income is \$68 thousand.

Economic indicators within the AA are positive. As of December 31, 2013, Franklin County had an unemployment rate of 5.4%, which compared favorably to the State of Ohio as a whole at 6.6% unemployment. Major employers include Nationwide Mutual Insurance Company, the Ohio State University, JP Morgan Chase, and local, state, and federal government.

Preble County (Dayton MSA)

As of June 30, 2013, UMSB had \$30.3 million in deposits in the Preble County market. This accounts for 6.36% of the total deposits in the county (7th of 11 institutions active in the AA). The thrift's Preble County office is located in the village of West Manchester in the northwest portion of the Dayton MSA, which had a population of less than 1,000 people in 2012. Although the village is part of the Dayton MSA, it is less densely populated than the urban core. The proximity to the Dayton market provides the local communities with adequate access to financial services from large, regional, and community institutions.

Preble County has a total population, based on 2010 US Census Data, of 42,270. Preble County consists of 12 census tracts, which includes no low-income tracts, 1 moderate-income tract, 10 middle-income tract, and 1 upper-income tract. Approximately 10% of AA households live below the poverty level. The 2013 HUD-adjusted median family income is \$58 thousand.

The economic indicators in the county are similar to the State of Ohio as a whole. As of December 31, 2013, Preble County had an unemployment rate of 6.8% compared to 6.6% for the State of Ohio as a whole. Major employment includes manufacturing, local government, and retail services.

Scope of Evaluation in Ohio

We conducted a full-scope review of the three AAs located in Ohio. The analysis includes the thrift's distribution of consumer credit based on borrower income, and geography. The sample includes the loan originations we manually identified as being made in one of the thrift's Ohio AAs. Because the thrift did not originate any business loans within any of the Ohio AAs we did not consider credit distribution based on geography or business size in our analysis. We also assessed responses to CRA related customer complaints.

Conclusions with Respect to Performance Tests in Ohio

Lending Test

Lending to Borrowers of Different Incomes

Lending to borrowers of different incomes within the Ohio assessment areas represents reasonable penetration based on area demographics. The analysis below includes consumer loans made to borrowers within one of three Ohio AAs. Overall, 19 of 28 loans in Ohio AAs were to low- or moderate-income borrowers.

Logan County

UMSB originated twelve consumer purpose loans within the Logan County AA during our review period.

Table 5 - Borrower Distribution of Consumer Loans in the Logan County, OH AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA Households	% of Loans by Number	% of AA Households	% of Loans by Number	% of AA Households	% of Loans by Number	% of AA Households	% of Loans by Number
Consumer Loans	20.8%	33.3%	16.7%	50.0%	18.2%	8.4%	44.3%	8.3%

UMSB lending in the Logan County assessment area represents reasonable penetration to LMI borrowers. The volume of consumer loan originations to LMI borrowers exceeds area demographics. The thrift made four loans to low-income borrowers and six loans to moderate-income borrowers. In total, 10 of 12 loans in the AA were to low- or moderate-income borrowers.

Preble County

UMSB originated fourteen consumer loans within the Preble County assessment area (AA) from 2012 to 2013.

Table 6- Borrower Distribution of Consumer Loans in the Preble County, OH AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number
Consumer Loans	20.8%	50.0%	15.6%	7.1%	21.8%	28.6%	41.8%	14.3%

UMSB lending activity indicates reasonable penetration to LMI borrowers. The volume of consumer loan originations to LMI borrowers exceeds area demographics. Fifty percent of AA loans (seven) were to low-income borrowers, which was well-above area demographics. There was one additional loan made to a moderate-income borrower. In total, UMSB made 8 of 14 loans in the Preble County AA to low- or moderate-income borrowers.

Franklin County

UMSB originated two consumer purpose loans to borrowers within the Franklin County AA during our review period.

Table 7 - Borrower Distribution of Consumer Loans in the Franklin County, OH AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number
Consumer Loans	26.3%	0.0%	17.1%	0.0%	18.2%	50.0%	38.4%	50.0%

The above table indicates poor lending penetration to LMI borrowers as no consumer loans originated in the AA were identified for the review period. The penetration of lending to LMI borrowers within the Franklin County AA received less weight than the other Ohio counties due to the low overall volume and the large number of lenders in the area.

Geographic Distribution of Loans

The geographic distribution of loans represents a reasonable dispersion within the Ohio assessment areas.

Logan County

UMSB originated twelve consumer purpose loans to borrowers in Logan County during our review period.

Table 8 - Geographic Distribution of Consumer Loans in the Logan County, OH AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number
Consumer Loans	0.0%	0.0%	18.2%	8.3%	72.7%	91.7%	9.1%	0.0%

Geographic lending data represents reasonable dispersion of loans in the AA. There are 2 moderate-income, 8 middle-income, and 1 upper-income census tracts in the county. UMSB made 1 of 12 loans in the AA to a moderate-income tract.

Preble County

UMSB originated fourteen consumer purpose loans to borrowers in Preble County during our review period.

Table 9 - Geographic Distribution of Consumer Loans in the Preble County, OH AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number
Consumer Loans	0.0%	0.0%	8.3%	0.0%	83.3%	92.9%	8.4%	7.1%

Geographic distribution of consumer loans represents poor dispersion. UMSB did not originate any loans to LMI census tracts in the AA. The lending activity in Preble County received less weight due to the limited number of LMI census tracts (1 moderate-income tract).

Franklin County

UMSB originated two consumer loans in the Franklin County assessment area during our review period.

Table 10 - Geographic Distribution of Consumer Loans in the Franklin County, OH AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number
Consumer Loans	22.3%	0.0%	27.3%	0.0%	27.0%	50.0%	23.4%	50.0%

UMSB did not originate any loans to borrowers in LMI census tracts indicating poor dispersion of credit. The lending activity in Franklin County received less weight due to the branch being located in an area of Franklin County with few LMI census tracts.

Responses to Complaints

There were no CRA related complaints identified during the review period.

State Rating

State of Florida

CRA Rating for Florida: Satisfactory

Lending Test is rated: Satisfactory

Description of Institution's Operations in Florida

UMSB has one branch in the State of Florida, which is located in the City of Lake Mary. UMSB has identified all of Seminole County as its AA in Florida. Lake Mary is in located in the Orlando-Kissimmee-Sanford MSA.

As of June 30, 2013, UMSB had \$32.9 million in local deposits. This represents a 0.5% market share (30th of 34 institutions active in the area). The Seminole County AA is in an urban part of Florida. Competition among financial service providers is high, and there are many active institutions in the area.

A community contact made in the area indicated financial institutions in the area are adequately serving the needs of the community.

Seminole County consists of 86 census tracts. This includes 1 low-income tract, 7 moderate-income tracts, 30 middle-income tracts, and 48 upper-income tracts. The total population of the AA, based on 2010 US Census Data, is 422,718. Approximately 9% of the household is in the county live below the poverty level. The 2013 HUD-adjusted median family income is \$58 thousand.

Economic indicators are favorable to the State of Florida as a whole. As of December 31, 2013, Seminole County had an unemployment rate of 5.1%, which compared favorably to the State as a whole at 7.2%. Major employers include Seminole County Public Schools, Convergys, Chase Credit Cards, and Florida Hospital.

Scope of Evaluation in Florida

We conducted a full-scope review of the assessment area located in Florida (Seminole County). The analysis includes the thrift's distribution of consumer credit based on borrower income and geography. The assessment includes the loan originations identified in Seminole County. Because the thrift did not originate any commercial loans within Seminole County, an analysis of that data would not be meaningful and is not included in the evaluation. We also assessed responses to CRA related customer complaints.

Conclusions with Respect to Performance Tests in Florida

Lending Test

Lending to Borrowers of Different Incomes

UMSB originated eight consumer purpose loans in Seminole County during our review period.

Table 11 - Borrower Distribution of Consumer Loans in the Seminole County, FL AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number
Consumer Loans	18.1%	0.0%	15.2%	50.0%	18.2%	0.0%	48.5%	50.0%

Lending to borrowers of different incomes indicates reasonable penetration to LMI individuals. Lending to LMI borrowers more than exceeds area demographics.

Geographic Distribution of Loans

UMSB originated eight consumer purpose loans to borrowers in Seminole County during the review period.

Table 12 - Geographic Distribution of Consumer Loans in the Seminole County, FL AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number
Consumer Loans	1.2%	0.0%	8.1%	0.0%	34.9%	50.0%	55.8%	50.0%

Based on lending data, UMSB had poor dispersion in Seminole County. We assigned less weight to the geographic distribution of credit due to the Seminole County branch being located in a portion of the county made up of upper- and middle-income census tracts. It is unlikely that borrowers from the LMI census tracts would travel to UMSB for their banking.

Responses to Complaints

There were no CRA related complaints identified during the review period.

State Rating

State of Kentucky

CRA Rating for the State of Kentucky: Satisfactory.

Lending test is rated: Satisfactory.

Description of Institution's Operations in Kentucky:

UMSB has one branch location in the Cincinnati-Middletown multistate MSA. The branch is located in Pendleton County, Kentucky, which is near the southern border of the MSA. The branch is located in Falmouth, KY, which despite being included in the Cincinnati-Middletown MSA is sparsely populated.

As of June 30, 2013, UMSB had \$18.4 million in local deposits. This accounts for 13.3% of total deposits in the market (4th of 5 institutions). There are no headquartered institutions in the county. Competition consists of branches of large and regional institutions. The proximity to the more densely populated portions of the MSA provides additional access to financial services outside of Pendleton County.

Pendleton County consists of 3 census tracts, which includes no low-income, 2 moderate-income, 1 middle income, and no upper income. The total population of the AA is 14,877 thousand. Approximately 16% of the households live below the poverty level. The 2013 HUD-adjusted median income is \$67 thousand.

As of December 31, 2013, Pendleton County had an unemployment rate of 7.6%, which compared favorably to 8.2% for the State of Kentucky. Employment in Pendleton County consists primarily of manufacturing, retail trade, and farming.

Scope of Evaluation in Kentucky

We conducted a full-scope review of the assessment area located in Pendleton County. The analysis includes the thrift's distribution of consumer loans based on borrower income, and geography. The assessment includes loan originations identified in Pendleton County. We also assessed responses to CRA related customer complaints. Because the thrift did not originate any business loans within Pendleton County, an analysis of that data would not be meaningful and is not included in the evaluation.

Lending Test

Lending to Borrowers of Different Incomes

UMSB originated fifteen loans to borrowers in Pendleton County from 2012 to 2013.

Table 13 - Borrower Distribution of Consumer Loans in the Pendleton County, KY AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number	% of AA House-holds	% of Loans by Number
Consumer Loans	31.0%	53.3%	17.3%	20.0%	20.9%	20.0%	30.8%	6.7%

Lending activity represents a reasonable penetration to LMI borrowers in Pendleton County during our review period. The lending data indicates lending to LMI borrowers in the AA exceeds area demographics. Overall, 11 of 15 loans made during the review period were to either low- or moderate-income borrowers.

Geographic Distribution of Loans

UMSB originated fifteen loans in Pendleton County during the review period.

Table 14 - Geographic Distribution of Consumer Loans in the Pendleton County, KY AA								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number	% of AA CTs	% of Loans by Number
Consumer Loans	0.0%	0.0%	66.7%	86.7%	33.3%	13.3%	0.0%	0.0%

Geographic distribution represents a reasonable dispersion of credit. The lending data indicates UMSB consumer loan activity exceeds area demographics. Overall, 13 of 15 loans were made to borrowers in moderate-income census tracts.

Responses to Complaints

There were no CRA related complaints identified during the review period.

Lending Outside the Assessment Area

Due to UMSB’s non-traditional business model, we also considered lending activity outside of the AAs in our analysis. The analysis focuses on lending penetration to LMI borrowers through consumer lending, lending to businesses of different sizes, community development lending through the thrift’s SBA 504 program, and loan modifications executed during the review period. Our analysis includes a random sample of 20 consumer loans originated from 2012 to 2013, a random sample of 20 business loans originated from 2012 to 2013, and all residential loan modifications executed during 2012 and 2013.

Conclusion on Lending Outside the Assessment Area

UMSB demonstrates satisfactory lending performance outside of its AA when considering all lending activity and performance context factors.

Consumer Lending

UMSB originated approximately 4,942 consumer loans outside of its AAs from 2012 to 2013. We completed a random sample of 20 loans originated in that period, and compared our results to national median income figures:

Table 12 - Borrower Distribution of Consumer Loans outside the AA (nationwide)								
Borrower Income	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	% of House-holds	% of Loans by Number	% of House-holds	% of Loans by Number	% of House-holds	% of Loans by Number	% of House-holds	% of Loans by Number
Consumer Loans	24.2%	0.0%	16.3%	15.0%	18.0%	15.0%	41.5%	70.0%

Although the sample indicates lending to moderate-income borrowers is in line with nationwide demographics, the above table indicates that lending to low-income borrowers is minimal. This is a function of the thrift’s business model, which focuses almost entirely on financing musical instrument loans through third party brokers. Per management’s estimation, 95% of third-party loans are for the purchase of musical instruments. Many of the items the bank is financing are high-end musical instruments that could be considered luxury items. The focus on this niche industry influences the low volume of loan originations to low-income borrowers.

Business Lending and Community Development

UMSB originated 92 business purpose loans from 2012 to 2013. We completed a random sample of 20 loans originated in this period, and compared it to business income information nationally.

Table 13 - Borrower Distribution of Loans to Businesses Outside the AAs (Random Sample)				
Business Revenues	< or = \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of Nationwide Businesses	72.6%	3.9%	23.5%	100.0%
% of Bank Loans by #	30.0%	70.0%	0.0%	100.0%
% of Bank Loans by \$	17.1%	82.9%	0.0%	100.0%

Lending data indicates that a majority of loan originations were to businesses with annual revenues greater than \$1 million. Lending to businesses under \$1 million is below national business demographics. As we noted in previous sections of the report, the thrift only makes business loans under government guarantee programs through third-party brokers. Typically, both SBA and brokered financing are utilized by sophisticated businesses with higher revenues. This appears to have a significant influence on the thrift's business lending activity.

Although the thrift focuses its commercial lending on higher revenue businesses, its SBA 504 program can be considered for community development lending. Per *Federal Register 11642 § 11.12(h)—1*, loans greater than \$1 million made under the SBA 504 program are automatically considered community development loans. During our review period, UMSB had made three SBA 504 loans greater than \$1 million, for an aggregate total of approximately \$4 million. This amount of community development lending is significant for an institution the size of UMSB. SBA 504 loans accounted for approximately 3.8 percent of all originations during our review period.

Residential Loan Modifications

During our review period, UMSB completed sixteen loan modifications to residential borrowers under financial strain. These loan modifications are similar in structure to refinances. Loan modifications were generally made at no cost to the borrower, and included adjustments such as interest rate reductions or extended amortizations.

During our lending test period (2012 to 2013) the thrift completed ten loan modifications to borrowers outside its assessment area. A majority of the loan modifications (6 out of 10) were to LMI borrowers. These activities benefited LMI individuals directly by allowing them to restructure their debt and avoid foreclosure.