



## **PUBLIC DISCLOSURE**

July 08, 2013

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

Fraternity FS & LA  
Charter Number 701292

764 Washington Boulevard  
Baltimore, MD 21230-2332

Office of the Comptroller of the Currency

400 7th Street S.W.  
Washington, DC 20219

**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 the institution's rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size and competitive factors;
- A majority of the bank's loans originated during the evaluation period were within the bank's assessment area (AA);
- The borrower distribution reflects reasonable penetration and satisfactory performance; and
- The geographic distribution reflects poor distribution and performance that needs to improve.

## **SCOPE OF EXAMINATION**

CRA activities at Fraternity Federal Savings and Loan (Fraternity) were completed using full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2010 through December 31, 2011. Residential mortgage loans were determined to be the bank's primary loan product and were reviewed as part of this examination. Additionally, we reviewed unsecured consumer loans designed to assist lower-income segments of the community.

In order to ensure that Fraternity's record of originating residential mortgage loans was accurate and reliable, we analyzed loan data Fraternity collected and reported in accordance with the Home Mortgage Disclosure Act (HMDA) requirements. This data integrity examination was performed during the first quarter of 2013. During that examination, we evaluated Fraternity's processes to ensure the accuracy of collected HMDA data and tested a sample of Fraternity's reported HMDA loans. Specifically, we tested the accuracy of HMDA loan data by comparing it against Fraternity's loan file documentation. The data integrity examination revealed that Fraternity's publicly available HMDA loan data could be relied upon for the purposes of this CRA evaluation.

## **DESCRIPTION OF INSTITUTION**

Fraternity is a federally chartered stock institution in operation since 1913. Fraternity offers fixed and adjustable rate loans for the purchase, refinance, and construction of one-to-four family residential loans. Home equity loans are also available. Deposit products offered include checking, statement and money market savings, certificates of deposit, and individual retirement accounts. Additional information is available at the bank's website at [www.fraternityfed.com](http://www.fraternityfed.com).

At March 31, 2013, Fraternity maintained total assets of \$166.7 million. As of the same date, Fraternity had net loans of \$122.9 million, total deposits of \$122.1 million and Tier One Capital of \$23.8 million. Net loans represent 73.7% of total assets. The bank’s loan portfolio consists primarily of one-to four family residential real estate loans.

The main office is located on Washington Boulevard, in the Washington Village neighborhood of Baltimore City. The institution operates three branches in suburban communities of Cockeysville, Hampstead, and Ellicott City. Fraternity’s hours of operation are, typically, 9:00am to 3:00pm on Monday through Thursday; 9:00am to 7:00pm on Friday; and 9:00am to 1:00pm on Saturday. All branch locations contain an ATM that is available 24-hours. During the evaluation period, the bank did not open or close any offices. There are no legal or financial factors impeding the bank’s ability to help meet the credit needs in its AA. At the prior CRA examination dated November 13, 2007, Fraternity was rated “Satisfactory”.

**DESCRIPTION OF ASSESSMENT AREA**

Demographic Information for Full Scope Area: Fraternity AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	475	16.42	25.26	36.00	21.47	0.84
Population by Geography	1,804,184	12.50	24.33	36.88	25.91	0.38
Owner-Occupied Housing by Geography	441,904	6.63	21.25	40.10	32.02	0.00
Business by Geography	197,513	6.75	19.71	39.27	34.23	0.04
Farms by Geography	3,126	1.28	8.80	40.79	49.14	0.00
Family Distribution by Income Level	455,893	23.71	18.27	21.67	36.35	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	191,399	21.44	34.05	32.76	11.75	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		\$59,301 \$84,500 12%	Median Housing Value Unemployment Rate (June 2013 Bureau of Labor Statistics)	\$121,610 7.3%		

(\*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 US Census and 2011 updated MFI

Fraternity’s AA is located in the Baltimore/Towson, Maryland Metropolitan Statistical Area (MSA) and includes all 200 census tracts in Baltimore City, 204 census tracts in Baltimore County, 41 census tracts in Howard County and 30 census tracts in Carroll County. The bank’s AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The total population in the AA was 1,804,184, as of the 2000 U.S. Census. The unemployment rate as of June 2013 was 7.3%.

Major employers in the AA include the University of Maryland school system, Johns Hopkins Health System, Giant Foods, and SAIC.

The median cost of housing in the AA is \$121,610. The updated Median Family Income for 2011 is \$84,500. The percentage of households below the poverty level is 12%. The AA population is comprised of 455,893 families with the following income distribution: 23.71% are low-income, 18.27 percent are moderate-income, 21.67 percent are middle-income, and 36.35 percent are upper income.

Market share data extracted from the 2011 HMDA data indicates that nationwide banks and mortgage companies dominate the local lending market. According to the June 30, 2012 FDIC Summary of Deposit Market Share Report, Fraternity was ranked number 41 out of 78 institutions in the Baltimore/Towson, MD MSA, with a 0.20% deposit market share. The largest competitors within the MSA are Bank of America (24.9% deposit market share), Manufacturers & Traders Trust Co (23.3% market share), PNC Bank (10.3% market share), and Wells Fargo (9.3% market share). The 2011 Peer Mortgage Data indicated that Fraternity was ranked 96 out of 477 lenders in the Baltimore/Towson, MD MSA with a 0.13% market share.

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

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

Fraternity's LTD ratio is outstanding. The bank's average LTD ratio for the prior twelve quarters ending December 31, 2011, is 98.63%. This is above the 88.49% average LTD ratio for similarly situated banks during the same period.

### **Lending in Assessment Area**

Fraternity's lending in their AA is outstanding. A substantial majority of home mortgage loans originated during the evaluation period were within the AA. An analysis of lending data disclosed that 85.53% of these loans were originated in the AA.

### **Lending to Borrowers of Different Incomes**

Fraternity's lending to borrowers of different incomes is satisfactory given demographic and competitive factors and the bank's offering of products specifically designed to meet the credit needs of lower-income borrowers.

Borrower distribution reflects poor penetration among residential real estate loans. The level of home purchase loans originated to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The level of home purchase loans originated to moderate-income borrowers is near the percentage of moderate-income families in the AA.

The level of home improvement loans originated to low-income borrowers is significantly lower than the percentage of low-income families in the AA and reflects poor penetration. The level of home improvement loans originated to moderate-income borrowers is near the percentage of moderate-income families in the AA and reflects reasonable penetration.

The level of home mortgage refinance loans originated to both low- and moderate-income borrowers is significantly lower than the percentage of low- and moderate-income families in the AA.

Despite the comparatively weak performance by the institution, performance is considered reasonable when comparing the affordability of housing in the AA and the bank’s market share in the assessment area.

The median cost of housing in the AA is \$121,610, based on 2000 census data. The HUD updated median family income for 2011 is \$84,500. This means that a low-income person earns less than \$42,250. Households below the poverty level are 12%. Based on these statistics, it would be difficult for a low-income individual to qualify for a real estate related loan in the AA.

Additionally, market share data from 2011 shows that nationwide banks dominate the local lending market, with Fraternity ranking 96<sup>th</sup> out of 477 lenders.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	23.71	2.17	18.27	15.22	21.67	13.04	36.35	69.57
Home Improvement	23.71	11.11	18.27	11.11	21.67	11.11	36.35	66.67
Home Mortgage Refinance	23.71	1.69	18.27	3.39	21.67	23.73	36.35	71.19

Fraternity also offers small, unsecured loans within its AA. This loan product was initiated in response to the perceived need within the community for reasonably low-cost access to credit for area residents who do not own their own homes.

During the review period, Fraternity made 27 unsecured personal loans, primarily to existing customers from the neighborhood surrounding its home office. All of these loans were made to low-income borrowers. With no other banking facility available near Fraternity’s home office to serve low-income residents, the institution has provided credit to people who might otherwise rely on other more costly sources of credit.

Table 2 - Borrower Distribution of Unsecured Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Unsecured	11.83	100.00	25.19	0.00	38.18	0.00	24.80	0.00

### Geographic Distribution of Loans

Fraternity's geographic distribution of loans, overall, needs to improve. The geographic distribution of residential mortgage loans reflects poor distribution in comparison to the demographic characteristics. The geographic distribution of consumer loans reflects excellent distribution in comparison to the demographic characteristics. Our review gave most weight to residential real estate loans as it is the bank's primary loan product. Our review did not detect any conspicuous or unexplained gaps in the bank's lending programs.

### Geographic Distribution of Residential Real Estate Loans

The distribution of home purchase loans to both low- and moderate-income geographies is significantly lower than the percentage of owner-occupied housing in the AA and reflects poor distribution for this category.

The distribution of home improvement loans to low-income geographies is significantly lower than the percentage of owner-occupied housing in the AA and reflects poor distribution for this category. However, the distribution of moderate-income geographies is near the ratio of owner-occupied housing in the AA and reflects reasonable distribution.

The distribution of home refinance loans to both low- and moderate-income geographies are near the ratios of owner-occupied housing in the AA and reflect reasonable distribution.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	6.63	0.00	21.25	8.51	40.10	12.77	32.02	78.72
Home Improvement	6.63	0.00	21.25	20.00	40.10	40.00	32.02	40.00
Home Mortgage Refinance	6.63	4.11	21.25	15.07	40.10	17.81	32.02	63.01

**Geographic Distribution of Consumer Loans**

The unsecured loans offered within the AA respond to the credit needs of the AA by providing reasonably low-cost access to credit for area residents, who do not own their own homes.

The distribution of consumer loans to low-income geographies exceeds the percentage of AA households and reflects excellent distribution. The distribution of consumer loans to moderate-income geographies is near the percentage of AA households and reflects reasonable distribution.

<b>Table 4 - Geographic Distribution of Unsecured Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Unsecured	11.83	77.78	25.19	22.22	38.18	0.00	24.80	0.00

**Responses to Complaints**

During the review period, the institution received no known written complaints pertaining to its performance in helping to meet the credit needs within its 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 or Federal savings association's CRA rating respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the national bank or Federal savings association, or in any AA by an affiliate whose loans have been considered as part of the national bank's or Federal savings association's lending performance.

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