



## **PUBLIC DISCLOSURE**

April 03, 2017

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Federal Bank & Trust

Charter Number 703619

46 W Brundage St  
Sheridan, WY 82801-4216

Office of the Comptroller of the Currency

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**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: Satisfactory**

First Federal Bank & Trust's (First Federal, or Association) overall Community Reinvestment Act (CRA) performance is rated "Satisfactory" based on the following factors.

- First Federal's loan-to-deposit (LTD) ratio is reasonable given the Association's size, financial condition, and Assessment Area (AA) needs.
- A substantial majority of First Federal's loans are originated inside the AA.
- Lending activities represent reasonable penetration among borrowers of different income levels and businesses of different sizes, given the Association's product offerings and local economic conditions.
- The geographic distribution of loans within First Federal's AA reflects excellent dispersion.
- The Association received no consumer complaints regarding its CRA performance during the evaluation period.

## **SCOPE OF EXAMINATION**

We performed a full-scope Community Reinvestment Act (CRA) examination of First Federal. We evaluated the Association's performance using small bank CRA examination procedures, which assess the Association's performance under the lending test. The evaluation period of the examination was June 1, 2012 through April 3, 2017. First Federal's primary lending product during the evaluation period was home residential real estate loans (RRE) including home purchases, refinances, and home improvement loans; RRE loans represented over 50 percent of loan volume generated during the evaluation period. The Association's secondary loan product was business loans, with 26 percent by number and 35 percent by dollar volume originated during the evaluation period. The Association's lending strategy changed slightly since the prior CRA Performance Evaluation. First Federal has expanded its commercial loan portfolio over the last several years, which prompted the review of business loans. Because First Federal is not a Home Mortgage Disclosure Act (HMDA) reporting institution, a loan sample was used to assess performance instead of HMDA data. We selected a representative sample of residential mortgage loans and business loans originated during the loan sampling period of 2014 through 2016, as this period was representative of the Association's strategy during the entire evaluation period. First Federal did not have any affiliate activity impacting this evaluation.

## DESCRIPTION OF INSTITUTION

First Federal is a federally chartered mutual institution located in Sheridan, Wyoming. The Association operates two full-service branches in Sheridan, Wyoming. First Federal has an automated teller machine (ATM) located at each of the two locations. Although the Association also operates two loan production offices, these were excluded from this examination as those locations do not accept deposits. During the evaluation period, the Association did not close any branches; however, it opened a second full-service branch in Sheridan, Wyoming in April 2016. Each office offers the same services, and the hours of operation do not vary significantly between the two locations.

First Federal offers various loan and deposit products, but focuses primarily on residential mortgage loans and, more recently, business loans. The Association provides traditional retail banking and commercial banking services. Deposit services include checking accounts, savings programs, money market savings, and certificates of deposit. Retail services include internet and mobile banking. Retail loans offered include home purchase, home equity lines of credit, consumer, construction, and home improvement loans. Business loans, including commercial real estate loans, are also offered.

As of December 31, 2016, First Federal reported \$266 million in total assets. The Association's loan portfolio was \$159 million, which represents 59.7 percent of total assets. Primary lending products are residential mortgage loans and business loans. The following tables reflect First Federal's balance sheet as of December 31, 2016.

Major Components of Assets, Liabilities and Capital as of 12/31/16			
Balance Sheet Component	Balance Sheet \$ Amount	% of Total Assets	% Annual Change (\$)
<b>Loans</b>			
1-4 Family Residential Properties	52,724	19.81	16.43
Non-Farm Non-Residential	48,632	18.27	13.46
Other Non-Farm Non-Residential	29,115	10.94	16.10
Commercial and Industrial Loans	18,974	7.13	-3.31
<b>Net Loans and Leases</b>	<b>158,792</b>	<b>59.67</b>	<b>15.44</b>
<b>Investments</b>			
U.S. Treasury and Agency	49,884	18.74	-22.28
Municipal Securities	16,909	6.35	-30.71
Federal Funds Sold and Resales	15,000	5.64	36.36
<b>Total Assets</b>	<b>266,130</b>	<b>100.00</b>	<b>5.35</b>
<b>Liabilities &amp; Capital (LC)</b>		<b>% of Total LC</b>	
Deposits	223,207	83.87	5.83
<b>Total Liabilities</b>	<b>225,135</b>	<b>84.66</b>	<b>6.10</b>
<b>Total Capital</b>	<b>40,995</b>	<b>15.40</b>	<b>1.42</b>

Source: 12/31/2016 Uniform Bank Performance Report

There are no financial or legal impediments constraining First Federal's ability to meet the credit needs of its AA. The Association received a "Satisfactory" rating at the prior CRA examination dated May 30, 2012.

## **DESCRIPTION OF ASSESSMENT AREA**

First Federal's only AA includes the entirety of Sheridan County, less public land in the national forest. Sheridan County is located on the northern border of Wyoming. Sheridan is the county seat. The county consists principally of several small communities - Big Horn, Clearmont, Dayton, Ranchester and Story. The county is made up of six census tracts (CTs). Of the six CTs, one is a moderate-income CT and five are middle-income CTs. The AA has no low-income CTs and no upper-income CTs. The Association's AA meets the requirement of the CRA regulation, and does not arbitrarily exclude any low- or moderate-income CTs.

According to the December 2016 state economic report issued by Moody's Analytics, the primary economic drivers for the state of Wyoming include energy and resources, defense, and agriculture. Although Wyoming is currently in a state of recession, the state boasts low debt burden relative to national averages, abundant natural energy resources, and national parks that encourage domestic and international tourism. The state's weaknesses include low industrial diversity with high employment concentration in volatile energy sectors, below-average educational attainment, and net negative migration. According to management, Sheridan County has historically been an agricultural area, but the recent emphasis on natural resources and related industries is causing a major shift away from economic dependence on ranching and tourism. Major employers in the AA include the Sheridan County School District, Sheridan Memorial Hospital, Sheridan VA Healthcare System, and Cloud Peak Energy.

According to the Bureau of Labor Statistics, the annual unemployment rate in Sheridan County has generally declined, from 6.2 percent in 2012, to 4.2 percent in 2015, and a slight uptick to 4.6 percent in 2016. Within Wyoming overall, BLS data reflects a 5.3 percent unemployment rate in 2012, trending down to 4.2 percent in 2015, and up to 5.3 percent in 2016.

The June 30, 2016 FDIC Deposit Market Share Report identifies nine institutions operating 12 branches within First Federal's AA, creating a competitive environment for deposits. The Association operates two branches in its AA, and had a 25.96 percent market share as of June 30, 2016. This ranks it second of nine financial institutions behind First Interstate at a 41.31 percent market share. Well Fargo Bank and U.S. Bank are the only large nationwide financial institutions operating in the area, with deposit market shares of 9.75 percent and 3.61 percent, respectively. Other institutions competing in the AA include Security State Bank, Cowboy State Bank, First Northern Bank of Wyoming, Bank of the West, and Buffalo Federal Bank.

In conjunction with this CRA examination, we contacted a community representative knowledgeable about the local housing market. According to the contact, there are

several counties in Wyoming that are in a recession as a result of the slowdown in the oil and gas industry. However, the contact did not believe that Sheridan County was overtly affected given the area’s economic diversity. He noted that local financial institutions are actively meeting the needs of the community and adequately provide financing opportunities to stimulate economic growth. The representative indicated that his experiences with lending institutions in AA have been positive. In general, financial institutions act as stewards of the community and are committed to providing for financing needs, including affordable housing for low- and moderate-income individuals.

The following table summarizes key demographic data for the AA.

Demographic Information for Full Scope Area: Sheridan AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	16.67	83.33	0.00	0.00
Population by Geography	29,116	0.00	18.58	81.42	0.00	0.00
Owner-Occupied Housing by Geography	8,570	0.00	16.91	83.09	0.00	0.00
Business by Geography	2,360	0.00	22.92	77.08	0.00	0.00
Farms by Geography	160	0.00	10.63	89.38	0.00	0.00
Family Distribution by Income Level	7,541	20.46	21.77	21.91	35.86	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,185	0.00	17.99	82.01	0.00	0.00
Median Family Income		67,040	Median Housing Value	233,443		
FFIEC Adjusted Median Family Income for 2017		72,200	Unemployment Rate	1.55%		
Households Below Poverty Level		10%	(2010 US Census)			

(\* ) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2017 FFIEC updated MFI

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LENDING TEST – Satisfactory

First Federal’s performance under the lending test is rated “Satisfactory.” We consider performance under each component of the lending test to be at least reasonable. The following sections present quantitative and qualitative data used in evaluating lending performance.

#### Loan-to-Deposit Ratio

First Federal's LTD ratio is reasonable and demonstrates responsiveness towards meeting the credit needs of the community. For the 19 quarters ending December 31, 2016, the Association’s average quarterly LTD ratio was 63.35 percent. This level slightly exceeds the average quarterly LTD ratio achieved by the peer group of 62.01 percent. For our comparison we analyzed five similarly situated financial institutions located in the same region of Wyoming as First Federal. It is important to note that none of the peer group banks operate within First Federal’s AA. However, the peer banks are comparable in size and structure, and operate in the regional area.

The following table illustrates First Federal's average LTD as compared to the consolidated peer group.

First Federal Bank & Trust		Peer Group	
Average LTD Ratio	63.35%	Average LTD Ratio	62.01%
High LTD Ratio	73.12%	High Avg. LTD	83.84%
Low LTD Ratio	56.17%	Low Avg. LTD	46.87%

Source: Call Report Data

## Lending in the Assessment Area

During the evaluation period, a substantial majority of First Federal's loans were originated inside the AA. Of the loans sampled, 92.5 percent by number and 92.4 percent by dollar amount were originated within the AA. The following table details the Association's lending volume inside and outside the AA.

Concentration of Thrift Loans Originated In and Outside of the Assessment Area						
Loan Type	Inside Area		Outside Area		Total	
	#	\$(000)	#	\$(000)	#	\$(000)
RRE Loans	18	\$4,597	2	\$421	20	\$5,018
Commercial Loans	19	\$5,381	1	\$400	20	\$5,781
Total # or \$	37	\$9,978	3	\$821	40	\$10,799

Source: Sample of Bank Loan Records

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

Overall, First Federal's lending penetration to low- and moderate-income borrowers reflects reasonable penetration among borrowers of different income levels and businesses of different sizes within the AA. The Association's RRE lending reflects reasonable penetration while commercial lending reflects excellent penetration. Given the fact that the Association's primary product is RRE loans, more consideration or weight was placed on the RRE analysis and results.

### *Residential Real Estate Lending*

First Federal's residential lending penetration to low- and moderate-income borrowers is reasonable overall. The following table reflects the percentage of loans that First Federal originated to low- and moderate-income borrowers, compared to demographic data and aggregate peer data for the AA. The borrower distribution in low-income tracts reflects poor penetration. In our overall conclusion, we considered performance context; the median housing value is about 3.5 times the median family income, indicating that home affordability is more difficult for low-income families. These families face more financial barriers to home ownership, particularly those living below the poverty line.

Performance relative to the moderate-income demographic exhibits reasonable penetration. Given the slightly greater percentage of moderate-income families compared to low-income families, and the greater challenges to home ownership faced by low-income families, we placed more weight on performance to moderate-income families.

<b>Table B3 - Distribution of Thrift RRE Loans By Borrower Income Level in the Assessment Area</b>				
<b>Borrower Income Category</b>	<b>% of # Loans</b>	<b>% of \$ Volume</b>	<b>% Family Distribution</b>	<b>% of Aggregate (or Peers)</b>
Low	0.00%	0.00%	20.46%	6.00%
Moderate	20.00%	11.09%	21.77%	18.77%
Middle	5.00%	2.57%	21.91%	24.39%
Upper	75.00%	86.34%	35.86%	27.20%
Income Not Available	0.00%	0.00%	0.00%	23.63%
<b>Total # or \$</b>	<b>20</b>	<b>\$4,672</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2010 U.S. Census data; Sample of Bank Loan Records

### Commercial Lending

First Federal's commercial lending penetration to small businesses is excellent. The following table reflects the percentage of loans that First Federal originated to small businesses with gross annual revenue greater- and less-than \$1 million, compared to demographic data and aggregate peer data for the AA. The sample indicates excellent penetration to businesses with revenue less than \$1 million. Approximately 90 percent of the Association's commercial loans are made to small businesses that generate \$1 million or less in revenue. This significantly exceeds the aggregate peer performance.

<b>Table B3 - Distribution of Thrift Commercial Loans By Business Income Category in the Assessment Area</b>				
<b>Business Income Category</b>	<b>% of # Loans</b>	<b>% of \$ Volume</b>	<b>% of AA Businesses</b>	<b>% of Aggregate (or Peers)</b>
<= \$1,000,000	90.00%	78.47%	81.4%	57.94%
> \$1,000,000	10.00%	21.53%	6.82%	42.06%
Unavailable	0.00%	0.00%	11.78%	0.00%
<b>Total # or \$</b>	<b>20</b>	<b>\$5,781</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2010 U.S. Census data; Sample of Bank Loan Records

### Geographic Distribution of Loans

Overall, First Federal's geographic distribution of RRE and commercial loans reflects excellent dispersion throughout the AA. The Association's residential lending reflects excellent dispersion, while commercial lending reflects reasonable dispersion. Given that the Association's most significant loan product is residential loans, more weight was placed on the residential analysis and results.

## Residential Real Estate Lending

First Federal's geographic distribution of residential real estate loans reflects excellent dispersion throughout the AA. The AA does not contain any low- or upper- income CTs. As shown in the table below, RRE loans originated in moderate-income CTs reflects excellent dispersion in comparison to demographic and aggregate data. Approximately 30 percent of the Association's RRE loans were made to borrowers located in a moderate-income CT. Performance substantially exceeds demographic and aggregate comparative data.

Distribution of Thrift RRE Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	% of # Loans	% of \$ Volume	% Owner Occupied	% of Aggregate (or Peers)
Low	0.00%	0.00%	0.00%	0.00%
Moderate	30.00%	35.58%	16.91%	15.07%
Middle	70.00%	64.42%	83.09%	84.93%
Upper	0.00%	0.00%	0.00%	0.00%
<b>Total # or \$</b>	<b>20</b>	<b>\$4,672</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2010 U.S Census data; Sample of Bank Loan Records

## Commercial Lending

First Federal's performance reflects reasonable dispersion within the AA. As shown in the table below, approximately 20 percent of the Association's commercial loans were made to borrowers located in a moderate-income CT, which falls within a reasonable range of demographic and aggregate comparative data.

Distribution of Thrift Commercial Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	% of # Loans	% of \$ Volume	% of AA Businesses	% of Aggregate (or Peers)
Low	0.00%	0.00%	0.00%	0.00%
Moderate	20.00%	21.83%	22.92%	19.19%
Middle	80.00%	78.17%	77.08%	80.81%
Upper	0.00%	0.00%	0.00%	0.00%
<b>Total # or \$</b>	<b>20</b>	<b>\$5,781</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2010 U.S Census data; Sample of Bank Loan Records

## Responses to Complaints

There have been no complaints relating to First Federal's CRA performance during the 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.