



PUBLIC DISCLOSURE

August 24, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Highland FS & LA
Charter Number 706581

106 S Main St, Suite 103
Crossville, TN 38555-4694

Office of the Comptroller of the Currency

320 Seven Springs Way
Suite 310
Brentwood, TN 37027

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 this rating include:

- The institution's average loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of the residential mortgage loans originated by the institution are to borrowers within its assessment area.
- The institution's lending reflects reasonable penetration among individuals of different income levels including low- and moderate-income borrowers, given the demographics of the assessment area.
- The geographic distribution of the institution's loans reflects excellent dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of the record of Highland Federal Savings and Loan Association (Highland) in meeting the credit needs of the communities in which it operates. We evaluated Highland's performance using Small Bank performance criteria, which includes the lending testing. The lending test evaluates the thrift's record in helping to meet the credit needs of its assessment area (AA) through its lending activities. The evaluation period covers May 16, 2011 to August 24, 2015. Highland has one designated (AA), which received a full-scope review.

We identified the bank's primary product as residential mortgage loans based on the number and dollar volume of loans originated from January 1, 2013, through June 30, 2015. The lending test analysis is based on a random sample of 24 loans from this primary product originated during this review period compared to 2010 Census data. We also used internal bank reports and other information from governmental websites for our assessment. Furthermore, we contacted two members of the community to better assess the needs of the community and the opportunities for financial institutions to lend and provide services to the area.

DESCRIPTION OF INSTITUTION

Highland is a federally chartered, mutual savings association established in 1961 and headquartered in Crossville, Cumberland County, Tennessee. Highland does not have any affiliates or subsidiaries. There have been no changes in the institution's corporate structure and no offices have opened or closed since the last Community Reinvestment Act (CRA) performance evaluation dated May 16, 2011, when the Institution received a "Satisfactory" rating.

The institution's head office and one branch are located in Crossville (Cumberland County). Highland operates as a traditional savings association, with a primary focus on mortgage lending and deposit acceptance.

On June 30, 2015, the institution reported total assets of approximately \$63 million. The loan portfolio totaled \$32 million, representing 57% of earning assets. Interest bearing bank balances and investment securities, primarily US treasury and agency securities, comprise 35% and 8%, respectively, of the remaining earning assets. Residential real estate secured loans continue to represent a significant portion of the loan portfolio at 93%.

There are no known financial or legal impediments that would affect Highland's ability to meet the credit needs of its communities.

DESCRIPTION OF ASSESSMENT AREA(S)

Highland's assessment area (AA) consists of all of Cumberland County, Tennessee. The area is located in central Tennessee, approximately 135 miles east of Nashville, Tennessee. Cumberland County is not part of a Metropolitan Statistical Area (MSA). According to the 2010 Census, the area is comprised of 14 census tracts with income designations, including four moderate-income census tracts, seven middle-income census tracts, and three upper-income census tracts. There are no low-income census tracts. The AA meets regulatory requirements and does not reflect illegal discrimination or arbitrarily exclude low- or moderate-income areas.

Economic conditions in the AA are unfavorable when compared to the state and national unemployment rates. According to the US Bureau of Labor Statistics, as of July 2015, the unemployment rate for Cumberland County was 7.5% (not seasonally adjusted), compared to the state and national unemployment rates of 6.4% and 5.3%, respectively, for the same period. Large area employers include Cumberland County Board of Education, Cumberland Medical Center, Flowers' Bakery, CoLinX, and StonePeak Ceramics.

A number of financial institutions serve the AA, providing for a competitive banking environment. There are nine banks with offices in the AA, including midsize or large banks and community banks. There are also several credit unions that provide financial services within the AA. Highland has the sixth largest deposit market share in the AA, with 5.23% of the total deposits according to the June 30, 2014, FDIC Deposit Market Share Report.

During this evaluation, we performed two community contacts, one economic development organization and one housing development organization, that serve all of Cumberland County. Both community contacts indicated that local financial institutions are favorably meeting the credit needs of the community. One community contact indicated that affordable housing continues to be a need within the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Highland's net loan-to-deposit (LTD) ratio is more than reasonable given Highland's size, financial condition, and AA credit needs. Highland's net LTD ratio averaged 68.85% over the 18 quarters since the last CRA examination, with a quarterly high of 74.92% at December 21, 2013, and a quarterly low of 63.92% at September 30, 2012.

Highland's net LTD ratio compares favorably with other community institutions of similar size, location, and product offerings; although, Highland is significantly smaller in total assets from the other institutions. Highland ranks second among a total of three similarly situated institutions serving its assessment area. The other three banks had a combined average net LTD ratio of 57.19%, with a combined quarterly average high of 70.39% and a combined quarterly average low of 45.47%.

The following table reflect Highland's and similarly situated institutions' net LTD ratios over the review period of March 31, 2011, through June 30, 2015:

Loan-To-Deposit Ratios		
Institution	Total Assets (in 000s) as of 6/30/15	Average Loan-to-Deposit Ratio
Highland FS & LA	\$63,358	68.85%
Cumberland County Bank	\$285,113	45.47%
Progressive Savings Bank	\$256,392	70.39%
First Farmers and Commercial Bank	\$110,635	55.72%

Source: *Institution Reports of Condition for the 18-quarter period from March 31, 2011 to June 30, 2015.*

Lending in Assessment Area

A substantial majority of the residential mortgage loans originated by Highland during the review period of January 1, 2012, through June 30, 2015, are to consumers within its AA. Based on our sample of 24 loans, Highland originated 23 loans by number or 95.83% within its AA.

The following table reflects Highland's lending within the AA by number and dollar amount of loans originated during the evaluation based on our sampling:

Lending in Cumberland County AA										
	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgage Loans	23	95.83	1	4.17	24	2,055	91.78	184	8.22	2,239

Source: Loan Sample

Lending to Borrowers of Different Incomes

The distribution of residential mortgage loans to borrowers reflects reasonable penetration among individuals of different income levels including low- and moderate-income borrowers, given the bank’s product offerings and local economic conditions. One of the credit needs in the AA was identified as affordable home loans for low- and moderate-income individuals.

In order to evaluate Highland’s record of lending to borrowers of different income levels, family income levels were stratified as a percentage of the updated Median Family Income (MFI) as provided by the Department of Housing and Urban Development (HUD) and compared to the percentage of families within each tract category.

Our sample of 23 residential mortgage loans originated within the AA indicates that 17.39% of loans by number were to low-income borrowers, compared to the demographic comparator at 17.47%. Further, our loan sample indicates that 4.35% of loans by number were to moderate-income borrowers, compared to the demographic comparator at 20.89%.

The below table compares the results of our sample to 2010 Census data of the AA:

Borrower Distribution of Residential Mortgage Loans in Cumberland County AA								
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
Residential Mortgage Loans	17.47	17.39	20.89	4.35	24.73	36.97	36.91	49.53

Source: Loan Sample; 2010 Census data

As indicated above, the percent of mortgage loans granted to low-income borrowers was slightly below the percent of low-income families within the assessment areas while the percent of mortgage loans granted to moderate-income borrowers was significantly below the percent of moderate-income families within the AA. Highland’s lending to

low- and moderate-income borrowers may be affected by a number of factors, including the poverty levels within its AA. According to the 2010 Census, approximately 16.18% of households within the AA have incomes below the poverty level. This poverty level coupled with the median housing value (weighted average) of \$135,284 potentially limits Highland’s lending opportunities in the AA. Additionally, Highland has established a program to refer lower income families for Veteran’s Association (VA), Federal Housing Administration (FHA), and Rural Housing Development (RHD) loans. Highland has referred at least 11 potential borrowers during the review period of January 1, 2013 through June 30, 2015.

Geographic Distribution of Loans

The geographic distribution of residential mortgage loans reflects excellent dispersion throughout the AA.

There are no low-income census tracts in Highland Federal's AA. Therefore, our analysis focused on the bank's performance in moderate-income census tracts. Our sample of 23 residential mortgage loans originated within the AA indicates that Highland originated 26.09% of loans in moderate-income census tracts, which exceeds the percent of owner-occupied housing units (OOHUs) in the moderate-income census tracts at 24.43%.

The below table compares the results of our sample to 2010 Census data of the AA:

Geographic Distribution of Residential Mortgage Loans in Cumberland County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA OOHUs	% of Number of Loans	% of AA OOHUs	% of Number of Loans	% of AA OOHUs	% of Number of Loans	% of AA OOHUs	% of Number of Loans
Residential Mortgage Loans	0.00	0.00	24.43	26.09	54.97	43.48	20.60	30.43

Source: Loan Sample; 2010 Census

Responses to Complaints

There are no consumer complaints related to the bank’s Community Reinvestment Act performance during this 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.