

PUBLIC DISCLOSURE

March 21, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Fed Bank
Certificate Number: 28405

105 West 8th Street
Port Angeles, Washington 98362

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
San Francisco Regional Office

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, and AA credit needs.
- A majority of the institution's loans and other lending activities are in the institution's AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The distribution of borrowers reflects reasonable penetration of loans among individuals of different income levels and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

The institution's community development (CD) performance demonstrates adequate responsiveness to CD needs in its AAs through CD loans, qualified investments, and CD services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities in the AAs.

Illegal credit practices inconsistent with helping to meet community credit needs were identified during the CRA evaluation period. Violations of Section 1024.14 of Regulation X, which implements Section 8 of RESPA, were cited at the examination. The bank's overall CRA rating was not lowered from Satisfactory because the impact and severity of these violations was minimal compared to the overall scale of the bank's business and residential mortgage lending activity. In addition, Violations of Section 5 of the Federal Trade Commission Act of 1914 (15 U.S.C. § 45) that prohibit unfair and deceptive acts or practices were cited at the examination. The bank's overall CRA rating was not lowered from a Satisfactory because the impact of the violations were not related to commercial or residential mortgage lending.

DESCRIPTION OF INSTITUTION

First Fed Bank (First Fed) is a state-chartered community bank headquartered in Port Angeles, Washington. The bank is wholly-owned by First Northwest Bancorp, a publicly traded one-bank holding company also based in Port Angeles. First Fed has a non-bank affiliate, the First Federal Community Foundation, which was created to benefit the communities in which the bank operates through charitable grants and donations. This evaluation reflects the activities of both First Fed and the First Federal Community Foundation. First Fed received a Satisfactory rating at the previous FDIC CRA Performance Evaluation, dated February 4, 2019, using Interagency Intermediate Small Institution Examination Procedures.

First Fed operates 13 full-service branches and 1 limited-service administrative branch throughout Western Washington. All 14 branch locations offer deposit-taking automated teller machines, virtual interactive teller machines, or both. Since the previous performance evaluation, the bank opened one branch in a middle-income area of Ferndale, Whatcom County; relocated one branch from an upper-income to a low-income area of Bellingham, Whatcom County; and acquired one branch in a middle-income area of Bellevue, King County. In total, First Fed operates four full-service branches in LMI geographies. In addition to automated teller machines and virtual interactive teller machines, alternative systems for delivering retail banking services include online and mobile banking.

First Fed is a full-service, community-oriented financial institution that offers deposit and loan products and services to retail and commercial customers. Deposit products include a variety of personal and business checking and savings accounts, money market accounts, and certificates of deposit. Retail loan products include residential mortgage loans, home equity loans and lines of credit, home improvement loans, and personal loans. Commercial loan products include commercial real estate loans, commercial and industrial loans, construction loans, and lines of credit. First Fed also administers SBA loans and participated in the SBA's Paycheck Protection Program (PPP), providing economic relief to small businesses adversely impacted by the COVID-19 pandemic.

As of December 31, 2021, First Fed reported \$1.9 billion in total assets and \$1.6 billion in total deposits. The bank's total assets include \$1.4 billion in total loans and \$344.2 million in securities. The following table details the distribution of First Fed's loan portfolio.

| Loan Portfolio Distribution as of 12/31/2021 | | |
|---|------------------|--------------|
| Loan Category | \$(000s) | % |
| Construction, Land Development, and Other Land Loans | 226,553 | 16.6 |
| Secured by Farmland | 0 | 0.0 |
| Secured by 1-4 Family Residential Properties | 357,914 | 26.2 |
| Secured by Multifamily (5 or more) Residential Properties | 167,542 | 12.3 |
| Secured by Nonfarm Nonresidential Properties | 339,413 | 24.8 |
| Total Real Estate Loans | 1,091,422 | 79.9 |
| Commercial and Industrial Loans | 50,948 | 3.7 |
| Agricultural Loans | 1,103 | 0.1 |
| Consumer Loans | 196,150 | 14.4 |
| Municipal Loans | 472 | 0.0 |
| Other Loans | 26,334 | 1.9 |
| Less: Unearned Income | 0 | 0.0 |
| Total Loans | 1,366,429 | 100.0 |
| <i>Source: Reports of Condition and Income</i> | | |

Home mortgage loans represent 38.5 percent of the bank’s loan portfolio and commercial and commercial real estate loans represent a combined 28.5 percent of the loan portfolio. Additionally, First Fed sells a significant number of originated mortgages on the secondary market, which are not reflected in the Consolidated Reports of Condition and Income. Since the previous evaluation, First Fed has originated and sold 1,199 home mortgage loans totaling approximately \$331.9 million on the secondary market. When combined with home mortgage loans retained by the bank, home mortgage lending represents the largest volume of loans and the bank’s primary business focus.

Examiners did not identify any financial, legal, or other impediments that would limit the bank’s ability to meet AA credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. First Fed has designated four AAs for review:

- The Non- MSA AA, which comprises Clallam and Jefferson Counties. The two counties are contiguous and not part of MSAs as delineated by the U.S. Office of Management and Budget.
- The Bremerton MSA AA, which comprises Kitsap County. Kitsap County composes the Bremerton-Silverdale-Port Orchard MSA in its entirety.
- The Bellingham MSA AA, which comprises Whatcom County. Whatcom County composes the Bellingham MSA in its entirety.
- The Seattle MSA, which comprises King County. King County is part of the Seattle-Bellevue-Kent MSA.

First Fed added the Seattle MSA AA in 2021 with the acquisition of its branch in Bellevue, King County, Washington. Therefore, lending and CD activities benefitting the Seattle MSA are

considered as part of the bank's AA activities beginning in 2021. The bank's AAs meet the technical requirements of the CRA and do not reflect any illegal discrimination or arbitrary exclusion of LMI areas. Refer to the individual AA reviews for additional details about each area's demographics, competition, and other economic information.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated February 4, 2019, to the current evaluation dated March 21, 2022. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate First Fed's CRA performance.

Based on First Fed's lending activity and performance during the previous evaluation, examiners used full-scope examination procedures to evaluate the bank's performance in the Non-MSA AA and Bellingham MSA AA. Examiners also performed a full-scope analysis of the bank's performance in the Bremerton MSA AA, as it had received limited-scope reviews in the previous two CRA evaluations. Limited-scope examination procedures were used to evaluate the bank's performance in the Seattle MSA AA. Given First Fed's branch network, lending activity, and deposit concentrations, the bank's lending and CD performance in the Non-MSA AA carries significantly greater weight in determining the bank's CRA performance than the Bremerton MSA AA, Bellingham MSA AA, and Seattle MSA AA. Refer to each respective AA review section for further details.

Activities Reviewed

Considering First Fed's business strategy and the number and volume of loans originated over the evaluation period, examiners determined that the bank's primary product lines are home mortgage and small business loans. The institution originates very few small farm or agriculture loans. Therefore, small farm loans provided no material support for conclusions and are not presented. Consumer loans do not represent a major product line by number or dollar volume, and First Fed did not request the inclusion of consumer loans. Thus, consumer loans are also excluded from this performance evaluation.

In accordance with the HMDA, First Fed reports the bank's home purchase, home refinance, and home improvement loan information on a HMDA loan application register (LAR) each year. To evaluate First Fed's home mortgage lending performance under the Lending Test, examiners analyzed all home mortgage loans reported on the bank's HMDA LARs over the review period. According to First Fed's HMDA LARs, the bank originated or purchased 402 home mortgage loans totaling \$149.1 million in 2019; 1,265 home mortgage loans totaling \$563.6 million in 2020, and 1,104 home mortgage loans totaling \$555.8 million in 2021. First Fed's home mortgage lending performance was compared to demographic data obtained from the 2015 ACS, as well as the aggregate performance of all other HMDA-reporting lenders operating within each AA. More emphasis was placed on the bank's performance as compared to HMDA aggregate data, because aggregate data is considered a better representation of actual credit demand and lending opportunities in the bank's AA than demographic data. First Fed's volume of home mortgage

lending increased significantly between 2019 and 2020 due to a number of factors, including a high number of refinances as consumers took advantage of low interest rates and new relationships in which the bank purchased home mortgage loans from third-parties. The bank's lending was largely consistent between 2020 and 2021. Therefore, examiners elected to present 2019 and 2020 home mortgage loan data. Data for 2021 was presented when necessary to illustrate lending trends and support conclusions on bank performance.

Unlike home mortgage loans, First Fed did not collect or report its small business data over the review period. To evaluate the First Fed's small business lending performance under the Lending Test, examiners analyzed the universe of small business loans originated between January 1, 2021 and December 31, 2021, as recorded on the bank's loan register. For the purposes of this evaluation, small business loans are defined as commercial and industrial and commercial real estate loans in amounts of \$1 million or less at origination. In 2021, First Fed originated or renewed 533 small business loans totaling \$66.5 million. Analysis of First Fed's small business loans included reviewing the business revenues used at the time of loan application to evaluate the bank's performance lending to businesses of different sizes. First Fed's small business lending performance was compared to 2021 business demographic data obtained from D&B.

For the Lending Test, while the bank's lending by number and dollar volume were both analyzed and presented, greater emphasis is placed on performance by number because it is more reflective of actual borrowers served and the bank's impact on its communities. Additionally, the bank's home mortgage lending performance is weighted more than its small business performance because of the volume of lending associated with each product.

For the CD test, bank management provided data on all CD loans, qualified investments, and CD services provided by First Fed and the First Federal Community Foundation since the previous performance evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

First Fed's Lending Test performance is rated "Satisfactory."

Loan-to-Deposit Ratio

First Fed's average net LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's net LTD ratio, calculated from Call Report data, averaged 85.9 percent over the previous 12 calendar quarters, from March 31, 2019 through December 31, 2021. First Fed's performance is consistent with the previous evaluation, where the bank's average net LTD ratio was 87.2 percent over 12 quarters.

The bank's average net LTD ratio compares favorably to that of similarly-situated institutions. Similarly-situated institutions were selected based on asset size, loan portfolio concentrations, and market area.

| Loan-to-Deposit Ratio Comparison | | |
|-----------------------------------|---|------------------------------|
| Bank | Total Assets as of 12/31/2021 (\$000s) | Average Net LTD Ratio (%) |
| First Federal | 1,917 | 85.9 |
| Similarly-Situated Institution #1 | 2,816 | 81.9 |
| Similarly-Situated Institution #2 | 1,697 | 63.1 |
| Similarly-Situated Institution #3 | 1,828 | 75.0 |

Source: Reports of Condition and Income 3/31/2019 – 12/31/2021

First Fed’s average net LTD trended downward over the review period, from a high of 93.0 percent as of June 30, 2019, to a low of 79.0 percent as of March 31, 2021. All three similarly-situated institutions recorded declining net LTD ratios over the same time period. As stated previously, First Fed also sold \$331.9 million of its home mortgage loans since the previous evaluation on the secondary market, which impacts the net LTD ratio and further supports the bank’s reasonable performance under this Lending Test criterion.

Assessment Area Concentration

First Fed made a majority of home mortgage and small business loans within its designated AAs, as detailed in the following table.

| Lending Inside and Outside of the Assessment Area | | | | | | | | | | |
|---|-----------------|-------------|------------|-------------|--------------|---------------------------------|-------------|----------------|-------------|-------------------|
| Loan Category | Number of Loans | | | | Total # | Dollar Amount of Loans \$(000s) | | | | Total \$(000s) |
| | Inside | | Outside | | | Inside | | Outside | | |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Mortgage | | | | | | | | | | |
| 2019 | 340 | 84.6 | 62 | 15.4 | 402 | 84,798 | 56.9 | 64,337 | 43.1 | 149,135 |
| 2020 | 831 | 65.7 | 434 | 34.3 | 1,265 | 300,588 | 53.3 | 263,047 | 46.7 | 563,634 |
| 2021 | 649 | 58.8 | 455 | 41.2 | 1,104 | 334,669 | 60.2 | 221,093 | 39.8 | 555,761 |
| Subtotal | 1,820 | 65.7 | 951 | 34.3 | 2,771 | 720,055 | 56.8 | 548,477 | 43.2 | 1,268,530 |
| Small Business | | | | | | | | | | |
| 2021 | 491 | 92.1 | 42 | 7.9 | 533 | 51,241 | 77.1 | 15,262 | 22.9 | 66,503 |
| Subtotal | 491 | 92.1 | 42 | 7.9 | 533 | 51,241 | 77.1 | 15,262 | 22.9 | 66,503 |
| Total | 2,311 | 69.9 | 993 | 30.1 | 3,304 | 771,296 | 57.8 | 563,739 | 42.2 | 1,335,033 |

*Source: 2019, 2020, and 2021 HMDA data; Evaluation Period 1/1/2021 - 12/31/2021 Bank Data
Due to rounding, totals may not equal 100.0*

The bank originated a majority of home mortgage loans by number and dollar volume within its AAs over the review period. The bank originated a substantial majority of small business loans by number and a majority by dollar volume within its AAs.

Geographic Distribution

Overall, First Fed's geographic distribution of loans reflects reasonable penetration throughout the institution's designated AAs. This conclusion results from a geographic distribution of loans that reflects reasonable dispersion throughout the Non-MSA AA, poor dispersion throughout the Bremerton MSA AA, reasonable dispersion throughout the Bellingham MSA AA, and consistent performance in the Seattle MSA AA. To evaluate geographic distribution, examiners focused on the percentage by number of home mortgage and small business loans in LMI CTs compared to aggregate and demographic data. Refer to each respective AA review for additional details and analysis.

Borrower Profile

First Fed's distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. Examiners focused on the percentage by number of home mortgage loans to LMI borrowers and small business loans to businesses with gross annual revenues (GAR) of \$1 million or less compared to aggregate and demographic data. The bank's performance was consistent across its AAs. Refer to each respective AA review for additional details and analysis.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

First Fed's CD Test performance is rated "Satisfactory." Overall, First Fed demonstrates adequate responsiveness to CD needs in its AAs through CD loans, qualified investments, and CD services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities in the AAs. Refer to each respective AA review for notable examples of the bank's CD activities during the review period.

Community Development Loans

First Fed originated 46 CD loans totaling approximately \$53.0 million over the evaluation period. This level of activity represents 4.9 percent of average total loans and 3.5 percent of average total assets. This is an increase from the previous evaluation, where CD lending composed 4.3 percent of average total loans and 2.8 percent of average total assets. The bank's CD lending performance is comparable to similarly-situated institutions, which had CD loans to average total assets that ranged from 2.1 percent to 5.0 percent. The following table details the bank's CD lending by AA and CD purpose.

| Community Development Lending by Assessment Area | | | | | | | | | | |
|--|--------------------|---------------|--------------------|---------------|----------------------|-----------|-------------------------|---------------|-----------|---------------|
| Assessment Area | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| Non-MSA | 5 | 2,560 | 5 | 10,341 | 1 | 38 | 18 | 13,581 | 29 | 26,520 |
| Bremerton MSA | 0 | 0 | 1 | 35 | 0 | 0 | 0 | 0 | 1 | 35 |
| Bellingham MSA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Seattle MSA | 1 | 10,400 | 2 | 179 | 0 | 0 | 4 | 6,144 | 7 | 16,723 |
| Total Inside of AAs | 6 | 12,960 | 8 | 10,555 | 1 | 38 | 22 | 19,725 | 37 | 43,278 |
| Statewide | 9 | 9,696 | 0 | 0 | 0 | 0 | 0 | 0 | 9 | 9,696 |
| Grand Total | 15 | 22,656 | 8 | 10,555 | 1 | 38 | 22 | 19,725 | 46 | 52,974 |

Source: Bank Data

As indicated in the table above, First Fed made 9 CD loans totaling approximately \$9.7 million within the State of Washington, but outside of its designated AAs. Of those 9 loans, 8 loans totaling approximately \$9.0 million were First Fed’s portion of loan participations made by the Washington Community Reinvestment Association (WCRA) consortium. The WCRA loans supported affordable housing by providing financing for multifamily affordable housing across Washington State. The additional statewide CD loan was a \$650,000 loan originated in 2019 that created 17 units of affordable housing for LMI families in King County, which was added to the bank’s AAs in 2021. Affordable housing was identified as a primary CD need in all AAs reviewed using full-scope examination procedures.

Qualified Investments

First Fed made 6 qualified investments totaling approximately \$12.9 million. This level of activity represents 3.9 percent of average total securities and 0.8 percent of average total assets. This is an increase from the previous evaluation, where qualified investments composed 0.4 percent of average total securities and 0.1 percent of average total assets. The bank’s level of qualified investment activity is comparable to similarly-situated institutions, which had qualified investments to average total assets ranging from 0.7 percent to 1.4 percent.

Additionally, First Fed and the First Federal Community Foundation made a total of 120 qualified grants and donations totaling approximately \$1.3 million. The bank’s level of qualified investments, grants, and donations demonstrates adequate responsiveness to its communities. The following table details the bank’s qualified investments by AA and CD purpose. Refer to each respective AA review for a breakdown of qualified donations and grants by AA.

| Qualified Investments, Grants, and Donations by Assessment Area | | | | | | | | | | |
|---|--------------------|--------------|--------------------|--------------|----------------------|------------|-------------------------|--------------|------------|---------------|
| Assessment Area | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| Non-MSA | 0 | 0 | 1 | 4,550 | 1 | 500 | 1 | 570 | 3 | 5,620 |
| Bremerton MSA | 1 | 4,800 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 4,800 |
| Bellingham MSA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Seattle MSA | 1 | 1,000 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1,000 |
| Total Inside of AAs | 2 | 5,800 | 1 | 4,550 | 1 | 500 | 1 | 570 | 5 | 11,420 |
| Statewide | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1,500 | 1 | 1,500 |
| Total Investments | 2 | 5,800 | 1 | 4,550 | 1 | 500 | 2 | 2,070 | 6 | 12,920 |
| Qualified Grants & Donations | 21 | 474 | 86 | 678 | 3 | 66 | 10 | 122 | 120 | 1,340 |
| Grand Total | 23 | 6,274 | 87 | 5,228 | 4 | 566 | 12 | 2,192 | 126 | 14,260 |
| <i>Source: Bank Data</i> | | | | | | | | | | |

The qualified grants and donations include 8 such activities totaling approximately \$82,000 that benefitted organizations serving a broader statewide or regional area that include multiple bank AAs. First Fed also made one qualified investment within the State of Washington, but outside of its designated AAs: the bank purchased a \$1.5 million municipal bond to finance the renovation of eight elementary schools where a majority of students are eligible for free or reduced lunches, demonstrating a primary benefit to LMI children.

Notable examples of qualified grants or donations benefitting multiple AAs include the following:

- In 2020, the First Federal Community Foundation awarded a \$25,000 grant to an organization that provides no-cost homeownership counseling to struggling homeowners facing potential foreclosure.
- In 2021, the bank donated \$1,000 to an organization with a mission of improving financial wellness and banking access to unbanked, low-income, and historically marginalized individuals and communities in Washington State.
- In 2021, the First Federal Community Foundation awarded a \$50,000 grant to an organization to help fund a program that provides pre-purchase education, homeownership counseling, and down payment assistance to LMI individuals.

Community Development Services

First Fed employees provided a total of 1,031.5 hours of CD service activities to 22 different organizations over the evaluation period. This level of activity represents 3.6 hours of CD service per full-time equivalent (FTE) employee. This is a significant decrease from the previous evaluation, where the bank provided 7.8 hours of CD service per FTE employee. The bank's performance compares unfavorably to similarly-situated institutions, which provided CD service hours per FTE employee ranging from 6.0 hours to 9.8 hours. The following table illustrates the bank's CD services by AA and CD purpose.

| Community Development Services by Assessment Area | | | | | |
|--|---------------------------|---------------------------|-----------------------------|--------------------------------|----------------|
| Assessment Area | Affordable Housing | Community Services | Economic Development | Revitalize or Stabilize | Totals |
| | # | # | # | # | # |
| Non-MSA | 93 | 190 | 54 | 102 | 439 |
| Bremerton MSA | 0 | 308 | 0 | 0 | 308 |
| Bellingham MSA | 0 | 0 | 0 | 0 | 0 |
| Seattle MSA | 0 | 24 | 0 | 0 | 24 |
| Statewide Activities | 252.5 | 0 | 0 | 0 | 252.5 |
| Total Inside of AAs | 345.5 | 522 | 54 | 102 | 1,023.5 |
| Statewide | 0 | 8 | 0 | 0 | 8 |
| Total | 345.5 | 530 | 54 | 102 | 1,031.5 |
| <i>Source: Bank Data</i> | | | | | |

First Fed’s total CD service activity includes 252.5 hours of service provided to an organization that supports affordable housing across the State of Washington, including all of the bank’s AAs. Additionally, one First Fed employee provided eight hours of CD service activity supporting community services for LMI individuals within the State of Washington, but outside of its designated AAs.

While the bank’s performance compares unfavorably to its performance at the previous evaluation, the decline in CD service hours is primarily attributable to the COVID-19 pandemic’s impact on in-person CD service activity opportunities in 2020 and 2021. Additionally, due to the timing of the CRA performance evaluations of the similarly-situated institutions reviewed, the pandemic’s impact on CD service opportunities is not fully captured in the CD service hours to FTE employee ratios. Finally, the bank made efforts during the height of the pandemic to encourage its employees to provide CD service activities, including expanding the bank’s employee volunteer program. Through the program, First Fed employees are allowed up to three paid days to provide volunteer services as a representative of the bank. The effect of these efforts is reflected in the number of unique organizations that benefitted from qualified CD service activity nearly doubling from the previous evaluation, from 12 to 22.

With these additional considerations, the bank’s overall provision of CD service activities during the review period demonstrates adequate responsiveness to CD service needs and opportunities in the AAs.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

First Fed's compliance with laws relating to discrimination and other illegal credit practices was reviewed during the evaluation, including the Equal Credit Opportunity Act and Fair Housing Act. Illegal credit practices inconsistent with helping to meet community credit needs were identified during the CRA evaluation period. Violations of Section 1024.14 of Regulation X, which implement Section 8 of RESPA, were cited at the examination. The bank's overall CRA Rating was not lowered from Satisfactory because the impact and severity of these violations was minimal compared to the overall scale of the bank's business and residential mortgage lending activity. Furthermore, the bank exited the relationships that led to the violations and management committed to enhance its compliance management system and implement appropriate oversight to prevent recurrence.

In addition, Violations of Section 5 of the Federal Trade Commission Act of 1914 (15 U.S.C. § 45) that prohibit unfair and deceptive acts or practices were cited at the examination. The bank's overall CRA Rating was not lowered from a Satisfactory because the impact of the violations were not related to commercial or residential mortgage lending. Furthermore, the bank exited the relationships that led the violations and management committed to enhance its compliance management system and implement appropriate oversight to prevent recurrence.

NON-MSA – FULL-SCOPE REVIEW

DESCRIPTION OF INSTITUTION’S OPERATIONS IN NON-MSA AA

The Non-MSA AA is composed of Clallam and Jefferson Counties, located on the north shore of the Olympic Peninsula. Clallam County comprises the Port Angeles Micropolitan Statistical Area; its largest city and county seat is Port Angeles. Approximately 60 percent of Jefferson County comprises Olympic National Park and Olympic National Forest; its county seat and only incorporated city is Port Townsend.

First Fed operates 8 of its 14 branches in the Non-MSA AA. Of the 1,820 home mortgage loans totaling \$720.1 million made within the bank’s AAs between 2019 and 2021, First Fed originated or purchased 1,277 loans (70.2 percent) totaling \$322.6 million (44.8 percent) in the Non-MSA AA. Of the 491 small business loans totaling \$51.2 million made inside the bank’s AAs in 2021, First Fed originated or renewed 325 loans (66.2 percent) totaling \$27.5 million (53.8 percent) in the Non-MSA. Additionally, according to the June 30, 2021 FDIC Deposit Market Share Report, the bank maintains 81.8 percent of its total deposits in the Non-MSA AA. Given First Fed’s branch network, lending activity, and deposit concentrations, the bank’s lending and CD performance in the Non-MSA carries significantly greater weight in determining the bank’s CRA performance than the Bellingham MSA AA, Bremerton MSA AA, and Seattle MSA AA. Only loans originated within and CD activities benefitting the Non-MSA AA were considered in the following review.

Economic and Demographic Data

According to 2015 ACS data, the Non-MSA AA contains 30 CTs: 4 moderate-income, 21 middle-income, 3 upper-income, and 2 CTs with no income designation. There are no low-income CTs in the AA. The following table includes family, housing, and business demographic information for the AA.

| Demographic Information of the Assessment Area | | | | | | |
|---|---------|---------------|------------------------------|------------------|-----------------|---------------|
| Assessment Area: Non-MSA | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 30 | 0.0 | 13.3 | 70.0 | 10.0 | 6.7 |
| Population by Geography | 102,480 | 0.0 | 11.8 | 71.9 | 16.3 | 0.0 |
| Housing Units by Geography | 53,661 | 0.0 | 11.6 | 70.6 | 17.7 | 0.0 |
| Owner-Occupied Units by Geography | 31,936 | 0.0 | 9.2 | 71.5 | 19.3 | 0.0 |
| Occupied Rental Units by Geography | 12,807 | 0.0 | 14.6 | 71.1 | 14.3 | 0.0 |
| Vacant Units by Geography | 8,918 | 0.0 | 16.1 | 66.7 | 17.1 | 0.0 |
| Businesses by Geography | 10,425 | 0.0 | 11.6 | 72.7 | 15.7 | 0.0 |
| Farms by Geography | 469 | 0.0 | 4.3 | 75.9 | 19.8 | 0.0 |
| Family Distribution by Income Level | 26,608 | 16.0 | 18.6 | 23.3 | 42.1 | 0.0 |
| Household Distribution by Income Level | 44,743 | 23.1 | 16.8 | 18.1 | 42.0 | 0.0 |
| Median Family Income Non-MSAs - WA | | \$58,240 | Median Housing Value | | | \$238,694 |
| | | | Median Gross Rent | | | \$830 |
| | | | Families Below Poverty Level | | | 8.0% |
| <i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

Historically, the economy in the Non-MSA AA was shaped by the natural resources in the area, with the logging and fishing industries serving as major economic drivers since both counties were established. While lumber, fish processing, and other agriculture industries remain important to the local economy, the service sector is dominant. According to 2021 D&B business demographic data, services represent the largest industry in the Non-MSA at 40.3 percent of AA businesses, followed by unclassified businesses at 16.2 percent, retail trade at 11.7 percent, construction at 8.4 percent, and finance and insurance at 7.6 percent. There is a high presence of small businesses in the AA, with 90.5 percent of area businesses reporting GARs of \$1 million or less. Additionally, 68.0 percent of area businesses reported having 4 or fewer employees, and 92.8 percent operate from a single location.

The unemployment rates in Clallam and Jefferson Counties were above the state and national rates prior to and during the height of the COVID-19 pandemic. Due to the high unemployment rates, the Federal Financial Institutions Examination Council (FFIEC) designated certain geographies in both counties as distressed nonmetropolitan middle-income CTs in 2019 and 2020. As the local economies rebounded, the average unemployment rate in both counties declined to slightly higher than the state and national levels in 2021. The following table details the unemployment rates over the evaluation period.

| Unemployment Rates | | | |
|--------------------|------|------|------|
| Area | 2019 | 2020 | 2021 |
| | % | % | % |
| Clallam County | 6.6 | 10.1 | 5.9 |
| Jefferson County | 5.6 | 9.4 | 5.7 |
| Washington State | 4.3 | 8.5 | 5.3 |
| National Average | 3.7 | 8.1 | 5.4 |

Source: U.S. Bureau of Labor Statistics

The median family income rose 6.0 percent in the Non-MSA AA over the review period from \$63,500 in 2019 to \$67,300 in 2021, based on FFIEC data. However, housing costs for prospective homeowners have also increased significantly. According to information obtained from the Federal Reserve Bank of St. Louis' Federal Reserve Economic Data (FRED), the average median listing price of a house in Clallam County increased 25.8 percent over the review period, from \$415,803 in 2019 to \$523,275 in 2021. Meanwhile, the average median days on the market decreased 44.1 percent, from 78 days in 2019 to 43.6 days in 2021, demonstrating an extremely active housing market over the review period. According to the U.S. Department of Housing and Urban Development (HUD), 14.0 percent of homeowners are cost-burdened, spending more than 30 percent of household income on housing costs, and 9.9 percent are severely cost-burdened, spending more than 50 percent of household income on housing costs, in the Non-MSA AA.

Housing costs for renters have similarly escalated. According to HUD, the fair market rent for a one-bedroom apartment increased 14.1 percent between 2019 and 2022 in Clallam County. Additionally, of the renters in the Non-MSA AA, 23.4 percent are cost-burdened and 21.4 percent are severely cost-burdened.

Competition

While the bank faces some competition from other financial institutions in the AA, First Fed is a market leader in deposits and lending. According to the June 30, 2021 FDIC Deposit Market Share Report, 10 financial institutions operate 34 branch offices in the Non-MSA AA, sharing a total of \$3.4 billion in deposits. First Fed ranks 1st in deposit market share, holding 34.9 percent of the AA's deposits. The 2nd ranked market share holder maintains 14.5 percent of the AA's deposits. In 2020, First Fed ranked 1st out of 301 HMDA reporting lenders in the Non-MSA AA with 9.0 percent of the market share by number of home mortgage loans originated in the AA, according to HMDA aggregate data.

The bank's presence in the Non-MSA AA is largely consistent with the previous evaluation. During the previous evaluation, First Fed had ranked 1st in deposit market share out of 10 financial institutions with 32.9 percent of deposits, and ranked 2nd out of 219 HMDA reporting lenders with 9.5 percent of the market share.

Community Contact

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying credit and CD needs and opportunities. Examiners interviewed a representative with an

organization that works to improve economic conditions in the Non-MSA AA by assisting local small businesses. The community contact discussed a recent survey conducted by the organization in which residents of the AA reported the lack of affordable workforce housing as their biggest financial concern. According to the contact, area wages have not kept pace with the cost of living, which along with the lack of sufficient affordable housing stock has resulted in an increase in unsheltered homeless individuals. Survey respondents also identified a lack of affordable healthcare in the area. The contact praised local financial institutions for funding a high volume of PPP loans, which proved essential in supporting small businesses in 2020 and 2021. However, the contact also noted that there is an opportunity for financial institutions to provide funding to startup businesses, which continue to have difficulty obtaining traditional financing.

Credit and Community Development Needs and Opportunities

Based on economic indicators and information from the community contact, examiners determined that affordable housing is the primary credit and CD need in the Non-MSA AA. Affordable housing needs include both affordable rental units and assistance to LMI families in pursuit of home ownership. Considering information from the community contact, small business loans for startup businesses and community services benefitting LMI individuals are additional credit and CD opportunities in the area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NON-MSA AA

LENDING TEST

First Fed's lending performance demonstrates reasonable responsiveness to community credit needs in the Non-MSA AA, considering the institution's capacity and resources. The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the AA. The distribution of borrowers also reflects a reasonable dispersion of home mortgage and small business loans to borrowers of different income levels and businesses of different revenue sizes.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. This conclusion is supported by a distribution of both home mortgage and small business loans that reflects reasonable penetration throughout moderate-income CTs in the AA. As stated previously, the Non-MSA AA contains no low-income geographies, so conclusions regarding the geographic distribution of loans are based on the bank's performance in the AA's moderate-income geographies.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA, as illustrated in the following table.

| Geographic Distribution of Home Mortgage Loans | | | | | | |
|---|--|-------------------------------------|------------|--------------|-----------------|--------------|
| Assessment Area: Non-MSA | | | | | | |
| Tract Income Level | % of Owner-Occupied Housing Units | Aggregate Performance % of # | # | % | \$(000s) | % |
| Moderate | | | | | | |
| 2019 | 9.2 | 6.2 | 18 | 6.7 | 1,890 | 3.3 |
| 2020 | 9.2 | 6.3 | 32 | 5.3 | 4,252 | 2.8 |
| Middle | | | | | | |
| 2019 | 71.5 | 70.1 | 196 | 73.1 | 40,323 | 70.8 |
| 2020 | 71.5 | 69.2 | 459 | 75.7 | 116,243 | 76.6 |
| Upper | | | | | | |
| 2019 | 19.3 | 23.6 | 54 | 20.1 | 14,749 | 25.9 |
| 2020 | 19.3 | 24.5 | 115 | 19.0 | 31,206 | 20.6 |
| Not Available | | | | | | |
| 2019 | 0.0 | 0.1 | 0 | 0.0 | 0 | 0.0 |
| 2020 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | | |
| 2019 | 100.0 | 100.0 | 268 | 100.0 | 56,962 | 100.0 |
| 2020 | 100.0 | 100.0 | 606 | 100.0 | 151,701 | 100.0 |
| <i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data</i> | | | | | | |
| <i>Due to rounding, totals may not equal 100.0</i> | | | | | | |

First Fed’s lending performance in the AA’s moderate-income geographies by number surpassed HMDA aggregate data in 2019. While the bank’s rate of lending in moderate-income geographies decreased between 2019 and 2020, the bank’s performance in 2020 was still comparable to 2020 aggregate data. This demonstrates similar performance to peer institutions and an adequate responsiveness to loan demand and lending opportunities in the AA.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA, as illustrated in the following table.

| Geographic Distribution of Small Business Loans | | | | | |
|---|------------------------|------------|--------------|-----------------|--------------|
| Assessment Area: Non-MSA | | | | | |
| Tract Income Level | % of Businesses | # | % | \$(000s) | % |
| Moderate | 11.6 | 35 | 10.8 | 2,631 | 9.6 |
| Middle | 72.7 | 257 | 79.1 | 22,277 | 80.9 |
| Upper | 15.7 | 33 | 10.2 | 2,639 | 9.6 |
| Not Available | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | 100.0 | 325 | 100.0 | 27,547 | 100.0 |
| <i>Source: 2021 D&B Data; 1/1/2021 - 12/31/2021 Bank Data Due to rounding, totals may not equal 100.0</i> | | | | | |

First Fed’s rate of lending in moderate-income geographies by number was only slightly below the percentage of AA businesses located in moderate-income geographies in 2021, reflecting reasonable performance in these areas.

Borrower Profile

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes. This conclusion is supported by reasonable penetration for both home mortgage and small business loans.

Home Mortgage Loans

The distribution of home mortgage borrowers reflects reasonable penetration among individuals of different income levels, as illustrated in the following table.

| Distribution of Home Mortgage Loans by Borrower Income Level | | | | | | |
|---|----------------------|-------------------------------------|------------|--------------|-----------------|--------------|
| Assessment Area: Non-MSA | | | | | | |
| Borrower Income Level | % of Families | Aggregate Performance % of # | # | % | \$(000s) | % |
| Low | | | | | | |
| 2019 | 16.0 | 4.4 | 15 | 5.6 | 941 | 1.7 |
| 2020 | 16.0 | 3.1 | 30 | 5.0 | 2,914 | 1.9 |
| Moderate | | | | | | |
| 2019 | 18.6 | 12.3 | 32 | 11.9 | 3,390 | 6.0 |
| 2020 | 18.6 | 13.0 | 88 | 14.5 | 13,278 | 8.8 |
| Middle | | | | | | |
| 2019 | 23.3 | 21.1 | 65 | 24.3 | 10,707 | 18.8 |
| 2020 | 23.3 | 22.5 | 135 | 22.3 | 27,390 | 18.1 |
| Upper | | | | | | |
| 2019 | 42.1 | 47.5 | 146 | 54.5 | 40,351 | 70.8 |
| 2020 | 42.1 | 46.8 | 312 | 51.5 | 87,039 | 57.4 |
| Not Available | | | | | | |
| 2019 | 0.0 | 14.6 | 10 | 3.7 | 1,573 | 2.8 |
| 2020 | 0.0 | 14.6 | 41 | 6.8 | 21,079 | 13.9 |
| Totals | | | | | | |
| 2019 | 100.0 | 100.0 | 268 | 100.0 | 56,962 | 100.0 |
| 2020 | 100.0 | 100.0 | 606 | 100.0 | 151,701 | 100.0 |
| <i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data Due to rounding, totals may not equal 100.0</i> | | | | | | |

In 2019 and 2020, First Fed’s rate of lending to low-income borrowers by number outpaced peer performance based on HMDA aggregate data for both years. In 2019, the distribution of home mortgage loans to moderate-income borrowers was slightly below aggregate data, and in 2020 the bank’s rate of lending to moderate-income borrowers exceeded aggregate data. Overall, the bank’s home mortgage lending reflects reasonable penetration to the AA’s LMI borrowers.

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different sizes.

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|--|------------------------|------------|--------------|-----------------|--------------|
| Assessment Area: Non-MSA | | | | | |
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | 90.5 | 25 | 7.7 | 4,516 | 16.4 |
| >1,000,000 | 2.5 | 23 | 7.1 | 9,354 | 34.0 |
| Revenue Not Available | 7.0 | 277 | 85.2 | 13,677 | 49.7 |
| Total | 100.0 | 325 | 100.0 | 27,547 | 100.0 |
| <i>Source: 2021 D&B Data, 1/1/2021 - 12/31/2021 Bank Data. Due to rounding, totals may not equal 100.0</i> | | | | | |

At 7.7 percent, First Fed’s rate of lending to businesses with GARs of \$1 million or less was far below the percentage of businesses in the AA that reported such revenues in 2021. However, this lending performance is distorted by the large number of loans made without business revenue information. When only considering small business loans with revenues collected, First Fed’s distribution of loans to businesses with GARs of \$1 million or less amounted to 52.1 percent, which is still below business demographics; however, there are additional considerations.

Of the 277 small business loans without revenue information available, 261 (94.2 percent) were PPP loans, which did not require the collection of revenue information and were particularly impactful to smaller businesses. Additionally, of the 325 small business loans made in the AA in 2021, 262 loans (80.6 percent) were made in amounts of \$100,000 or less and 293 loans (90.2 percent) were made in amounts of \$250,000 or less. Though actual business revenues were not available in the small business data analyzed, the volume of relatively smaller-dollar loans evidences the bank’s willingness to extend credit to the AA’s smaller businesses. Based on this additional context, First Fed’s rate of lending to businesses with GARs of \$1 million or less is considered reasonable.

COMMUNITY DEVELOPMENT TEST

First Fed’s CD performance demonstrates adequate responsiveness to the CD needs of the Non-MSA AA through CD loans; qualified investments, grants, and donations; and CD services. Examiners considered the institution’s capacity and the need and availability for such CD opportunities in the AA.

Community Development Loans

During the evaluation period, First Fed originated 29 CD loans in the Non-MSA AA totaling approximately \$26.5 million. A majority of the loans by number and dollar volume were PPP loans that revitalized or stabilized areas of the AA by retaining jobs for individuals in LMI and/or distressed CTs. During the previous evaluation, the bank made 13 CD loans totaling approximately \$6.3 million in the AA. The bank’s level of CD lending compares favorably to a similarly-situated institution operating in the AA. The following table details the institution’s CD lending in the Non-MSA AA over the evaluation period by CD category.

| Community Development Lending Non-MSA AA | | | | | | | | | | |
|---|---------------------------|-----------------|---------------------------|-----------------|-----------------------------|-----------------|--------------------------------|-----------------|---------------|-----------------|
| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| 2019 (Partial) | - | - | 2 | 633 | - | - | - | - | 2 | 633 |
| 2020 | 3 | 1,815 | 1 | 326 | - | - | 11 | 11,990 | 15 | 14,131 |
| 2021 | 2 | 745 | 2 | 9,382 | 1 | 38 | 7 | 1,591 | 12 | 11,756 |
| YTD 2022 | - | - | - | - | - | - | - | - | - | - |
| Total | 5 | 2,560 | 5 | 10,341 | 1 | 38 | 18 | 13,581 | 29 | 26,520 |
| <i>Source: Bank Data</i> | | | | | | | | | | |

The following are notable examples of First Fed’s CD lending in the AA:

- In 2020, First Fed made a loan of approximately \$693,000 to refinance a low-income and transitional housing project. The complex creates 18 affordable units designated for LMI individuals and families.
- In 2021, the bank originated an \$8.3 million loan to fund the construction of a medical facility that will provide treatment for individuals with substance abuse disorders. Given the demographics around the facility and needs assessments conducted of the AA, a majority of patients are likely to be LMI.

Qualified Investments

First Fed made 3 qualified investments totaling approximately \$5.6 million and 58 donations totaling approximately \$741,000 that benefitted the Non-MSA AA during the evaluation period. During the previous evaluation, the bank made 1 investment totaling \$500,000 and 34 donations totaling \$289,000 in the AA. The bank’s level of qualified investment and donation activity compares favorably to the similarly-situated institution reviewed. The distribution of qualified investments, grants, and donations benefitting the Non-MSA AA by CD category over the review period is detailed in the following table.

| Qualified Investments, Grants, and Donations Non-MSA AA | | | | | | | | | | |
|--|---------------------------|-----------------|---------------------------|-----------------|-----------------------------|-----------------|--------------------------------|-----------------|---------------|-----------------|
| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| 2019 (Partial) | - | - | 1 | 4,550 | - | - | 1 | 570 | 2 | 5,120 |
| 2020 | - | - | - | - | 1 | 500 | - | - | 1 | 500 |
| 2021 | - | - | - | - | - | - | - | - | - | - |
| YTD 2022 | - | - | - | - | - | - | - | - | - | - |
| Subtotal | - | - | 1 | 4,550 | 1 | 500 | 1 | 570 | 3 | 5,620 |
| Qualified Grants & Donations | 12 | 298 | 36 | 305 | 2 | 26 | 8 | 112 | 58 | 741 |
| Total | 12 | 298 | 37 | 4,855 | 3 | 526 | 9 | 682 | 61 | 6,361 |
| <i>Source: Bank Data</i> | | | | | | | | | | |

The following are notable examples of First Fed’s qualified investments, grants, and donations in the AA:

- In 2019, First Fed purchased a \$4.6 million municipal bond to finance the upgrade of a medical facility that primarily serves a low-income community in the AA, where a majority of the patient base consists of Medicaid beneficiaries.
- In 2020, the bank made 4 donations totaling \$30,000 to 4 different food banks serving the AA in order to address food insecurity in the community that was exacerbated by the economic impact of the COVID-19 pandemic.
- In 2021, the First Federal Community Foundation awarded a \$100,000 grant to an organization in order to help build homes specifically designated for the AA’s LMI individuals and families. The grant helped to fund a project that is expected to result in 30 to 40 permanently affordable homes.

Community Development Services

First Fed employees provided a total of 439 CD service hours in the Non-MSA AA over the evaluation period. While this is a significant decline from the previous evaluation where bank employees provided 1,115 hours of qualified CD service activities, examiners determined that the decline was largely due to fewer in-person service opportunities in 2020 during the height of the COVID-19 pandemic. Additionally, the bank’s level of CD service hours is comparable to the similarly-situated institution reviewed. Therefore, the bank’s CD service activities reflect adequate responsiveness to CD service opportunities and needs in the AA. The following table details First Fed’s CD service activity over the evaluation period by CD category.

| Community Development Services Non-MSA AA | | | | | |
|--|-------------------------------|-------------------------------|---------------------------------|------------------------------------|---------------|
| Activity Year | Affordable Housing | Community Services | Economic Development | Revitalize or Stabilize | Totals |
| | # | # | # | # | # |
| 2019 (Partial) | 5 | 84.5 | - | - | 89.5 |
| 2020 | 24 | 30 | 8.5 | 12 | 74.5 |
| 2021 | 64 | 75.5 | 45.5 | 90 | 275 |
| YTD 2022 | - | - | - | - | - |
| Total | 93 | 190 | 54 | 102 | 439 |
| <i>Source: Bank Data</i> | | | | | |

The following are notable examples of the bank’s provision of CD services:

- From 2019 to 2021, 3 First Fed employees provided a total of 78.5 hours of CD service activity by serving on the Board of an organization that advocates for and creates affordable housing for LMI residents in the AA.
- From 2019 to 2020, a bank employee provided 91 hours of CD service activity by serving on the Board of an organization that seeks to provide equal access to cultural, education, and economic opportunities, with a focus on LMI individuals.

BREMERTON MSA – FULL-SCOPE REVIEW

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE BREMERTON MSA AA

The Bremerton MSA AA consists of Kitsap County, which occupies most of the Kitsap Peninsula, and includes both Bainbridge Island and Blake Island. The county seat of Kitsap County is Port Orchard, and its largest city is Bremerton.

First Fed operates 2 of its 14 branches in the Bremerton MSA AA. Of the 1,820 home mortgage loans totaling \$720.1 million made within the bank’s AAs between 2019 and 2021, First Fed originated or purchased 249 loans (13.7 percent) totaling \$169.2 million (23.5 percent) in the Bremerton MSA AA. Of the 491 small business loans totaling \$51.2 million made inside the bank’s AAs in 2021, First Fed originated or renewed 55 loans (11.2 percent) totaling \$7.2 million (14.0 percent) in the Bremerton MSA AA. Additionally, according to the June 30, 2021 FDIC Deposit Market Share Report, the bank maintains 10.6 percent of its total deposits in the Bremerton MSA AA. Given First Fed’s branch network, lending activity, and deposit concentrations, the bank’s lending and CD performance in the Bremerton MSA AA carries significantly less weight in determining the bank’s CRA performance than the Non-MSA AA, and slightly more weight than the Bellingham MSA AA and Seattle MSA AA. Only loans originated within and CD activities benefitting the Bremerton MSA AA were considered in the following review.

Economic and Demographic Data

According to 2015 ACS data, the Bremerton MSA AA contains 55 CTs: 1 low-income, 12 moderate-income, 31 middle-income, 10 upper-income, and 1 CT with no income designation. The following table includes family, housing, and business demographic information for the AA.

| Demographic Information of the Assessment Area | | | | | | |
|---|---------|---------------|------------------------------|------------------|-----------------|---------------|
| Assessment Area: Bremerton MSA | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 55 | 1.8 | 21.8 | 56.4 | 18.2 | 1.8 |
| Population by Geography | 255,441 | 1.0 | 22.8 | 57.6 | 18.6 | 0.0 |
| Housing Units by Geography | 108,689 | 1.6 | 22.3 | 58.3 | 17.8 | 0.0 |
| Owner-Occupied Units by Geography | 65,671 | 0.6 | 14.7 | 63.5 | 21.2 | 0.0 |
| Occupied Rental Units by Geography | 32,068 | 2.9 | 37.4 | 48.2 | 11.5 | 0.0 |
| Vacant Units by Geography | 10,950 | 3.6 | 23.7 | 57.3 | 15.4 | 0.0 |
| Businesses by Geography | 21,879 | 2.2 | 14.3 | 54.8 | 28.6 | 0.0 |
| Farms by Geography | 698 | 0.6 | 9.0 | 63.2 | 27.2 | 0.0 |
| Family Distribution by Income Level | 65,501 | 19.3 | 18.7 | 21.9 | 40.1 | 0.0 |
| Household Distribution by Income Level | 97,739 | 22.5 | 16.4 | 20.0 | 41.1 | 0.0 |
| Median Family Income MSA - 14740 Bremerton-Silverdale-Port Orchard, WA MSA | | \$75,652 | Median Housing Value | | | \$265,563 |
| | | | Median Gross Rent | | | \$1,051 |
| | | | Families Below Poverty Level | | | 7.0% |
| <i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

Because Kitsap County serves as an access point to Puget Sound, the area is an important location for the U.S. military and transportation infrastructure. According to Moody’s Analytics, 36.5 percent of total employment in the AA is in the government sector, and the top employer by far is Naval Base Kitsap. Other major employers include St. Michael Medical Center and Olympic College. The unemployment rate in Kitsap County was slightly above the state and national rates prior to the onset of the COVID-19 pandemic. The unemployment rate has fallen to pre-pandemic levels and the annual rates were lower than state and national averages in 2020 and 2021. The following table details the average annual unemployment rates over the evaluation period.

| Unemployment Rates | | | |
|--|------|------|------|
| Area | 2019 | 2020 | 2021 |
| | % | % | % |
| Kitsap County | 4.6 | 7.7 | 4.6 |
| Washington State | 4.3 | 8.5 | 5.3 |
| National Average | 3.7 | 8.1 | 5.4 |
| <i>Source: U.S. Bureau of Labor Statistics</i> | | | |

The median family income in the AA increased 10.1 percent over the review period, from \$85,500 in 2019 to \$94,100 in 2021, based on FFIEC data. However, average housing costs have also

increased significantly for renters and prospective homeowners. According to FRED information, the average median listing price of a house in Kitsap County rose 21.0 percent over the review period, from \$469,601 in 2019 to \$568,357 in 2021. Meanwhile, the average median days on the market decreased 22.4 percent, from 46.2 days in 2019 to 35.8 days in 2021, speaking to a very active housing market over the review period. According to HUD, 13.6 percent of homeowners are cost-burdened, spending more than 30 percent of household income on housing costs, and 8.8 percent are severely cost-burdened, spending more than 50 percent of household income on housing costs, in Kitsap County. According to HUD, fair market rent for a one-bedroom apartment in Kitsap County increased 47.3 percent between 2019 and 2022. Of the renters in the area, 21.9 percent are cost-burdened and 20.5 percent are severely cost-burdened.

Competition

First Fed operates in a competitive environment within the AA. According to the June 30, 2021 FDIC Deposit Market Share Report, 13 financial institutions operate 51 branches in the Bremerton MSA AA, sharing a total of \$4.6 billion in deposits. First Fed ranks 8th in deposit market share, holding 3.4 percent of the AA's deposits. The top 5 ranked financial institutions share 78.1 percent of the area's deposits and include 3 large national banks. In 2020, First Fed ranked 40th out of 396 HMDA reporting lenders in the Bremerton MSA AA with 0.6 percent of the market share by number of home mortgage loans originated in the AA, according to HMDA aggregate data.

The bank's presence in the Bremerton MSA AA has increased since the previous evaluation. During the previous evaluation, First Fed had ranked 12th in deposit market share out of 15 institutions with 1.7 percent of deposits, and ranked 58th out of 350 HMDA reporting lenders with 0.3 percent of the market share.

Community Contact

To help determine the credit and CD needs of the AA, examiners conducted a community contact with a representative from an organization that promotes economic development in the Bremerton MSA AA. According to the contact, local small businesses have done well in recent years despite the pandemic due to the high level of federal funding and assistance throughout 2020 and 2021. Despite this, the contact stated that there continue to be business-level credit needs. However, the primary need identified by the contact was a lack of affordable housing stock to purchase and rent. While many new units are being developed in the AA, there are affordability concerns due to rising home prices and rental costs.

Credit and Community Development Needs and Opportunities

Considering information from the community contact and demographic and economic data, examiners determined that affordable housing is the primary credit and CD need in the AA. There is also a need and opportunity for small business lending.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE BREMERTON MSA AA

LENDING TEST

First Fed's performance demonstrates poor responsiveness to community credit needs in the Bremerton MSA AA, considering the institution's capacity and resources. While the bank's dispersion of home mortgage and small business loan borrowers by income and revenue levels was reasonable, the bank had a poor geographic distribution of home mortgage and small business loans throughout the AA.

Geographic Distribution

The geographic distribution of loans reflects poor dispersion due to a poor distribution of home mortgage and small business loans throughout the AA's LMI geographies.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects poor dispersion throughout the AA, as illustrated in the following table.

| Geographic Distribution of Home Mortgage Loans | | | | | | | |
|---|-------------|-----------------------------------|------------------------------|------------|--------------|---------------|--------------|
| Assessment Area: Bremerton MSA | | | | | | | |
| Tract Income Level | | % of Owner-Occupied Housing Units | Aggregate Performance % of # | # | % | \$(000s) | % |
| Low | | | | | | | |
| | 2019 | 0.6 | 0.8 | 0 | 0.0 | 0 | 0.0 |
| | 2020 | 0.6 | 0.6 | 5 | 3.8 | 2,628 | 2.7 |
| | 2021 | 0.6 | -- | 1 | 1.3 | 5,650 | 10.4 |
| Moderate | | | | | | | |
| | 2019 | 14.7 | 19.1 | 4 | 9.8 | 1,206 | 7.5 |
| | 2020 | 14.7 | 16.8 | 12 | 9.2 | 10,876 | 11.0 |
| | 2021 | 14.7 | -- | 5 | 6.4 | 2,003 | 3.7 |
| Middle | | | | | | | |
| | 2019 | 63.5 | 61.7 | 20 | 48.8 | 7,311 | 45.3 |
| | 2020 | 63.5 | 62.5 | 73 | 56.2 | 30,092 | 30.5 |
| | 2021 | 63.5 | -- | 50 | 64.1 | 23,269 | 42.7 |
| Upper | | | | | | | |
| | 2019 | 21.2 | 18.4 | 17 | 41.5 | 7,629 | 47.3 |
| | 2020 | 21.2 | 20.1 | 40 | 30.8 | 54,910 | 55.7 |
| | 2021 | 21.2 | -- | 22 | 28.2 | 23,602 | 43.3 |
| Not Available | | | | | | | |
| | 2019 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| | 2020 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| | 2021 | 0.0 | -- | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | | | |
| | 2019 | 100.0 | 100.0 | 41 | 100.0 | 16,145 | 100.0 |
| | 2020 | 100.0 | 100.0 | 130 | 100.0 | 98,505 | 100.0 |
| | 2021 | 100.0 | -- | 78 | 100.0 | 54,524 | 100.0 |
| <i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i> | | | | | | | |

First Fed made no home mortgage loans in the AA's one low-income CT in 2019. The bank's lending performance in the low-income geography improved significantly in 2020, with lending far surpassing aggregate and demographic data. The bank's rate of lending in the low-income CT decreased in 2021, but remained above aggregate and demographic data.

First Fed's lending performance in the AA's 12 moderate-income CTs falls far short of aggregate data in both 2019 and 2020. At 6.4 percent, the bank's rate of lending to moderate-income geographies deteriorated in 2021, and compared very unfavorably to the percentage of homes in those areas. Though 2021 HMDA aggregate data is not yet available to use as a standard of comparison, the fact

that 2019 and 2020 HMDA aggregate data in moderate-income CTs have historically exceeded housing demographic data speaks to a high level of demand for home mortgage loans within these geographies, further emphasizing the bank’s poor dispersion of loans to these areas. Therefore, First Fed’s home mortgage lending demonstrates overall poor distribution throughout the AA.

Small Business Loans

The geographic distribution of small business loans reflects poor dispersion, as reflected in the following table.

| Geographic Distribution of Small Business Loans | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area: Bremerton MSA | | | | | |
| Tract Income Level | % of Businesses | # | % | \$(000s) | % |
| Low | 2.2 | 3 | 5.5 | 928 | 12.9 |
| Moderate | 14.3 | 3 | 5.5 | 256 | 3.6 |
| Middle | 54.8 | 22 | 40.0 | 4,491 | 62.5 |
| Upper | 28.6 | 27 | 49.1 | 1,511 | 21.0 |
| Not Available | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | 100.0 | 55 | 100.0 | 7,186 | 100.0 |

*Source: 2021 D&B Data; 1/1/2021 - 12/31/2021 Bank Data
Due to rounding, totals may not equal 100.0*

While First Fed’s lending in the AA’s sole low-income geography exceeds business demographic data, the bank’s rate of lending in moderate-income geographies significantly trails the percentage of businesses reported in these areas. Overall, First Fed’s small business lending demonstrates poor distribution throughout the AA.

Borrower Profile

The distribution of borrowers reflects, given the demographics of the area, reasonable penetration among borrowers of different income levels and businesses of different revenue sizes. This conclusion is supported by reasonable penetration for both home mortgage and small business loans.

Home Mortgage Loans

Given the demographics of the AA, the distribution of home mortgage borrowers reflects reasonable penetration among individuals of different income levels, as illustrated in the following table.

| Distribution of Home Mortgage Loans by Borrower Income Level | | | | | | |
|---|----------------------|-------------------------------------|------------|--------------|-----------------|--------------|
| Assessment Area: Bremerton MSA | | | | | | |
| Borrower Income Level | % of Families | Aggregate Performance % of # | # | % | \$(000s) | % |
| Low | | | | | | |
| 2019 | 19.3 | 3.7 | 2 | 4.9 | 429 | 2.7 |
| 2020 | 19.3 | 3.6 | 4 | 3.1 | 734 | 0.7 |
| 2021 | 19.3 | -- | 4 | 5.1 | 676 | 1.2 |
| Moderate | | | | | | |
| 2019 | 18.7 | 15.5 | 3 | 7.3 | 763 | 4.7 |
| 2020 | 18.7 | 16.0 | 16 | 12.3 | 3,757 | 3.8 |
| 2021 | 18.7 | -- | 12 | 15.4 | 2,848 | 5.2 |
| Middle | | | | | | |
| 2019 | 21.9 | 24.8 | 6 | 14.6 | 2,280 | 14.1 |
| 2020 | 21.9 | 23.8 | 33 | 25.4 | 9,404 | 9.5 |
| 2021 | 21.9 | 23.8 | 12 | 15.4 | 4,310 | 7.9 |
| Upper | | | | | | |
| 2019 | 40.1 | 37.5 | 28 | 68.3 | 12,024 | 74.5 |
| 2020 | 40.1 | 33.7 | 62 | 47.7 | 27,495 | 27.9 |
| 2021 | 40.1 | -- | 44 | 56.4 | 21,560 | 39.5 |
| Not Available | | | | | | |
| 2019 | 0.0 | 18.5 | 2 | 4.9 | 650 | 4.0 |
| 2020 | 0.0 | 22.8 | 15 | 11.5 | 57,115 | 58.0 |
| 2021 | 0.0 | -- | 6 | 7.7 | 25,130 | 46.1 |
| Totals | | | | | | |
| 2019 | 100.0 | 100.0 | 41 | 100.0 | 16,145 | 100.0 |
| 2020 | 100.0 | 100.0 | 130 | 100.0 | 98,505 | 100.0 |
| 2021 | 100.0 | -- | 78 | 100.0 | 54,524 | 100.0 |
| <i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i> | | | | | | |

In 2019, First Fed's rate of lending to low-income borrowers by number exceeded HMDA aggregate data. In 2020, the bank's rate of lending to low-income borrowers decreased and was slightly below aggregate data. Therefore, the bank's lending performance was still comparable to peer institutions. HMDA aggregate data is not yet available to use as a standard of comparison for 2021. However, while the bank's lending performance in 2021 was below the percentage of low-income families in the AA, examiners note that the rate increased from the bank's 2020 performance and surpassed HMDA aggregate figures for the prior two years. Aggregate data is generally a better indicator of credit demand and opportunities.

First Fed’s lending to moderate-income borrowers was far below aggregate data in 2019. However, the bank’s lending performance increased significantly in 2020, and increased again in 2021. First Fed’s lending to moderate-income borrowers in 2020 was below aggregate aggregate and demographic data. However, the institution’s lending increased to 15.4 percent in 2021 performance and was comparable to historical HMDA aggregate data.

Given the strength of the bank’s lending performance to low-income borrowers and the upward trend in lending to moderate-income borrowers, overall, the bank’s home mortgage lending reflects reasonable penetration to the AA’s LMI borrowers.

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different sizes.

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area: Bremerton MSA | | | | | |
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | 90.6 | 5 | 9.1 | 619 | 8.6 |
| >1,000,000 | 2.4 | 7 | 12.7 | 1,122 | 15.6 |
| Revenue Not Available | 7.0 | 43 | 78.2 | 5,445 | 75.8 |
| Total | 100.0 | 55 | 100.0 | 7,186 | 100.0 |
| <i>Source: 2021 D&B Data, 1/1/2021 - 12/31/2021 Bank Data. Due to rounding, totals may not equal 100.0</i> | | | | | |

At 9.1 percent, the percentage of loans made to businesses with GARs of \$1 million or less was far below the percentage of businesses in the AA that reported such revenues in 2021. However, this lending performance is distorted by the large number of loans made without business revenue information. When only considering small business loans with revenues collected, First Fed’s distribution of loans to businesses with GARs of \$1 million or less amounted to 41.7 percent, which is still below business demographics; however, there are additional considerations.

Of the 43 small business loans without revenue information available, 37 (86.0 percent) were PPP loans, which did not require the collection of revenue information and were particularly impactful to smaller businesses. Additionally, of the 55 small business loans made in the AA in 2021, 39 loans (70.9 percent) were made in amounts of \$100,000 or less and 47 loans (85.5 percent) were made in amounts of \$250,000 or less. Though actual business revenues were not available in the small business data analyzed, the volume of relatively smaller-dollar loans evidences the bank’s willingness to extend credit to the AA’s smaller businesses. Based on this additional context, First Fed’s rate of lending to businesses with GARs of \$1 million or less is considered reasonable.

COMMUNITY DEVELOPMENT TEST

First Fed's CD performance demonstrates adequate responsiveness to the CD needs of the Bremerton MSA AA through CD loans; qualified investments, grants, and donations; and CD services. Examiners considered the institution's capacity and the need and availability for such CD opportunities in the AA.

Community Development Loans

During the evaluation period, First Fed originated 1 CD loan totaling approximately \$35,000 that benefitted the AA by supporting community services targeted to LMI individuals. The loan was to an organization that provides food at no cost to those in need within the community. This is a decrease from the previous evaluation where the bank made 3 CD loans totaling approximately \$8.7 million in the AA. This level of lending activity compares unfavorably to a similarly-situated institution operating in the area.

Qualified Investments

First Fed made 1 qualified investment totaling \$4.8 million and 21 donations totaling approximately \$199,000 that benefitted the AA over the evaluation period. The investment supported affordable housing, which was identified as a CD need in the area, and a majority of the donations by number and dollar volume supported community services targeted to LMI individuals. This is a significant increase from the previous evaluation where the bank made no investments and 20 donations totaling approximately \$98,000 in the AA. The bank's level of qualified investments and donation activity also compares extremely favorably to the similarly-situated institution reviewed.

Notable examples of the bank's qualified investments, grants, and donations include the following:

- In 2020, the First Federal Community Foundation awarded a \$50,000 grant to an organization to fix the roof of a facility that provides shelter to homeless individuals in Kitsap County.
- In 2021, First Fed invested \$4.8 million in a fund to finance the construction of an affordable housing complex that will provide permanent and transitional housing to LMI members of the Port Gamble S'Klallam Tribe.
- In 2021, the bank donated \$10,000 to help revitalize and stabilize the AA's LMI geographies by supporting the development of a community event space. The project is located in the AA's single low-income CT, which was identified as an economically distressed area and designated a Qualified Opportunity Zone.

Community Development Services

During the review period, First Fed employees provided a total of 308 hours of CD services in the AA. All of the CD service hours were conducted with organizations that primarily benefit LMI individuals and families with vital community services. At the previous evaluation, First Fed

employees provided 450 hours of qualified CD service activity to AA organizations. Considering performance context, the bank's level of CD services is comparable to the similarly-situated institution reviewed.

Notable examples of the bank's qualified CD service activities include the following:

- From 2019 to 2022, 3 bank employees provided a total of 165 hours of CD service activity by serving on the Board of a charitable organization that distributes food to those struggling with food insecurity.
- From 2019 to 2021, a bank employee provided a total of 98 hours of CD service activity by serving on the Board of an organization with a mission of helping students pursue a quality higher education. A majority of the students who benefit are LMI residents of Kitsap County.

BELLINGHAM MSA – FULL-SCOPE REVIEW

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE BELLINGHAM MSA AA

The Bellingham MSA AA consists of Whatcom County, which is located along the Canadian border and lies between the Salish Sea and Cascade Mountains. The largest city and county seat of Whatcom County is Bellingham.

First Fed operates 3 of its 14 branches in the Bellingham MSA AA, 1 of which is new since the previous evaluation. Of the 1,820 home mortgage loans totaling \$720.1 million made within the bank’s AAs between 2019 and 2021, First Fed originated or purchased 196 loans (10.8 percent) totaling \$98.2 million (13.6 percent) in the Bellingham MSA AA. Of the 491 small business loans totaling \$51.2 million made inside the bank’s AAs in 2021, First Fed originated or renewed 70 loans (14.3 percent) totaling \$5.2 million (10.2 percent) in the Bellingham MSA AA. Additionally, according to the June 30, 2021 FDIC Deposit Market Share Report, the bank maintains 7.6 percent of its total deposits in the Bellingham MSA AA. Given First Fed’s branch network, lending activity, and deposit concentrations, the bank’s lending and CD performance in the Bellingham MSA AA carries significantly less weight than the Non-MSA AA, slightly less weight than the Bremerton MSA AA, and slightly more weight than the Seattle MSA AA. Only loans originated within and CD activities benefitting the Bellingham MSA AA were considered in the following review.

Economic and Demographic Data

According to 2015 ACS data, the Bellingham MSA AA contains 34 CTs: 1 low-income, 2 moderate-income, 25 middle-income, 5 upper-income, and 1 CT with no income designation. The following table includes family, housing, and business demographic information for the AA.

| Demographic Information of the Assessment Area | | | | | | |
|---|---------|------------|------------------------------|---------------|--------------|------------|
| Assessment Area: Bellingham MSA | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 34 | 2.9 | 5.9 | 73.5 | 14.7 | 2.9 |
| Population by Geography | 207,100 | 3.4 | 7.5 | 74.3 | 14.0 | 0.8 |
| Housing Units by Geography | 91,911 | 3.5 | 6.7 | 74.8 | 14.0 | 1.0 |
| Owner-Occupied Units by Geography | 50,359 | 1.0 | 4.1 | 77.8 | 17.0 | 0.1 |
| Occupied Rental Units by Geography | 29,408 | 8.5 | 13.1 | 65.0 | 10.7 | 2.6 |
| Vacant Units by Geography | 12,144 | 1.8 | 1.8 | 85.8 | 9.7 | 0.9 |
| Businesses by Geography | 25,005 | 1.7 | 5.3 | 72.3 | 15.3 | 5.4 |
| Farms by Geography | 1,151 | 1.0 | 2.3 | 81.1 | 15.0 | 0.5 |
| Family Distribution by Income Level | 49,259 | 20.8 | 17.1 | 22.5 | 39.6 | 0.0 |
| Household Distribution by Income Level | 79,767 | 25.4 | 15.8 | 17.0 | 41.9 | 0.0 |
| Median Family Income MSA - 13380 Bellingham, WA MSA | | \$68,376 | Median Housing Value | | | \$276,439 |
| | | | Median Gross Rent | | | \$938 |
| | | | Families Below Poverty Level | | | 10.1% |
| <i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

While timber and fishing helped propel the local economy in the area’s earliest days, like the national economy the largest job-providing sector is private services. According to Moody’s Analytics, the top employer in the area is St. Joseph Hospital, followed by the Lummi Nation, and Western Washington University. The leisure and hospitality industry have been a key support in the area as the manufacturing sector continues to be impacted by ongoing global supply chain issues and rising costs.

The unemployment rate in the Bellingham MSA was higher than the state and national rates prior to and during the height of the COVID-19 pandemic. The unemployment rate in the AA declined in 2021 and was consistent with the state and national rates. The following table details the unemployment rates over the evaluation period.

| Unemployment Rates | | | |
|--|------|------|------|
| Area | 2019 | 2020 | 2021 |
| | % | % | % |
| Whatcom County | 5.0 | 9.3 | 5.3 |
| Washington | 4.3 | 8.5 | 5.3 |
| National Average | 3.7 | 8.1 | 5.4 |
| <i>Source: U.S. Bureau of Labor Statistics</i> | | | |

As with the other AAs reviewed using full-scope examination procedures, housing costs have increased dramatically for renters and potential homeowners. According to FRED information, the average median listing price of a house in Whatcom County increased 24.5 percent over the review period, from \$440,677 in 2019 to \$548,544 in 2021. Meanwhile, the average median days on the market decreased 18.6 percent, from 57.9 days in 2019 to 47.2 days in 2021. According to HUD, 15.0 percent of homeowners are cost-burdened, spending more than 30 percent of household income on housing costs, and 9.6 percent are severely cost-burdened, spending more than 50 percent of household income on housing costs, in Whatcom County. According to HUD, fair market rent for a one-bedroom apartment in Whatcom County increased 68.7 percent between 2019 and 2022. Of the renters in the area, 22.7 percent are cost-burdened and 27.8 percent are severely cost-burdened.

Competition

First Fed operates in a competitive environment within the AA. According to the June 30, 2021 FDIC Deposit Market Share Report, 14 financial institutions operate 48 branch offices in the Bellingham MSA AA, sharing a total of \$5.6 billion in deposits. First Fed ranks 12th in deposit market share, holding 2.0 percent of the AA's deposits. The top 5 ranked financial institutions share 63.7 percent of the area's deposits and include large regional and national banks. In 2020, First Fed ranked 29th out of 340 HMDA reporting lenders in the Bellingham MSA with 0.6 percent of the market share by number of home mortgage loans originated in the AA, according to HMDA aggregate data.

The bank's presence in the Bellingham MSA AA has increased slightly the previous evaluation. During the previous evaluation, First Fed ranked 14th in deposit market share out of 15 financial institutions with 1.6 percent of deposits, and ranked 30th out of 264 HMDA reporting lenders with 0.4 percent of the market share.

Community Contact

In order to obtain additional information regarding local credit and CD needs and opportunities, examiners contacted a representative from an organization that promotes sustainable economic development in the Bellingham MSA AA. The contact described the local economic conditions as challenging, with the primary concern being affordable housing. While the area's small businesses credit needs are largely being met, the lack of affordable housing is impacting business attraction, retention, and recruitment because people cannot afford to live in the AA. In the contact's opinion, local financial institutions are very active and involved in Bellingham, as well as the outlying communities in the county.

Credit and Community Development Needs and Opportunities

Based on economic indicators and information from the community contact, examiners determined that affordable housing is the primary credit and CD need in the AA. Affordable housing needs include both affordable rental units and assistance to LMI families in pursuit of home ownership.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE BELLINGHAM MSA AA

LENDING TEST

First Fed's lending performance demonstrates reasonable responsiveness to community credit needs in the Bellingham MSA AA, considering the institution's capacity and resources. This conclusion is supported by the bank's overall reasonable geographic distribution and borrower profile of home mortgage and small business loans in the AA.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. While the bank's geographic distribution of small business loans is poor, the distribution of home mortgage loans reflects reasonable penetration throughout the AA's LMI areas. Given First Fed's lending activity over the review period, the bank's home mortgage lending performance is weighted more heavily when determining conclusions. Therefore, the overall geographic distribution of loans in the AA is considered reasonable.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA, as illustrated in the following table.

| Geographic Distribution of Home Mortgage Loans | | | | | | |
|---|-----------------------------------|------------------------------|-----------|--------------|---------------|--------------|
| Assessment Area: Bellingham MSA | | | | | | |
| Tract Income Level | % of Owner-Occupied Housing Units | Aggregate Performance % of # | # | % | \$(000s) | % |
| Low | | | | | | |
| 2019 | 1.0 | 1.3 | 0 | 0.0 | 0 | 0.0 |
| 2020 | 1.0 | 1.0 | 2 | 2.1 | 6,338 | 12.6 |
| Moderate | | | | | | |
| 2019 | 4.1 | 4.4 | 2 | 6.5 | 403 | 3.4 |
| 2020 | 4.1 | 4.2 | 2 | 2.1 | 506 | 1.0 |
| Middle | | | | | | |
| 2019 | 77.8 | 80.8 | 27 | 87.1 | 9,735 | 83.3 |
| 2020 | 77.8 | 79.6 | 76 | 80.0 | 31,269 | 62.1 |
| Upper | | | | | | |
| 2019 | 17.0 | 13.3 | 2 | 6.5 | 1,553 | 13.3 |
| 2020 | 17.0 | 15.0 | 15 | 15.8 | 12,269 | 24.4 |
| Not Available | | | | | | |
| 2019 | 0.1 | 0.2 | 0 | 0.0 | 0 | 0.0 |
| 2020 | 0.1 | 0.1 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | | |
| 2019 | 100.0 | 100.0 | 31 | 100.0 | 11,691 | 100.0 |
| 2020 | 100.0 | 100.0 | 95 | 100.0 | 50,382 | 100.0 |
| <i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data Due to rounding, totals may not equal 100.0</i> | | | | | | |

Though First Fed did not originate or purchase home mortgage loans in low-income CTs in 2019, the geographic distribution of loans in the AA's one low-income geography increased significantly in 2020 and compares favorably to demographic and HMDA aggregate data.

At 6.5 percent, the bank's lending in moderate-income geographies was above demographic and aggregate data in 2019. The bank's rate of lending to moderate-income CTs decreased in 2020, falling below both comparison rates. However, examiners note that the bank's rate of lending in the area's LMI geographies has improved since the previous evaluation, where the bank's geographic distribution of home mortgage loans was found to be poor. First Fed's efforts to improve lending performance in the AA included opening a new branch and relocating an existing branch from an upper-income geography to the area's low-income CT. Overall, First Fed's rate of home mortgage lending to the AA's LMI areas reflects reasonable geographic dispersion.

Small Business Loans

The geographic distribution of small business loans reflects poor dispersion, as reflected in the following table.

| Geographic Distribution of Small Business Loans | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area: Bellingham MSA | | | | | |
| Tract Income Level | % of Businesses | # | % | \$(000s) | % |
| Low | 1.7 | 0 | 0.0 | 0 | 0.0 |
| Moderate | 5.3 | 2 | 2.9 | 134 | 2.6 |
| Middle | 72.3 | 48 | 68.6 | 3,419 | 65.7 |
| Upper | 15.3 | 19 | 27.1 | 1,630 | 31.3 |
| Not Available | 5.4 | 1 | 1.4 | 21 | 0.4 |
| Totals | 100.0 | 70 | 100.0 | 5,204 | 100.0 |

*Source: 2021 D&B Data; 1/1/2021 - 12/31/2021 Bank Data
Due to rounding, totals may not equal 100.0*

First Fed made no loans to small businesses in the low-income geography in 2021. Additionally, the bank's rate of lending to small businesses in the AA's moderate-income geographies fell below business demographic data. Examiners note that the bank's lending performance has improved since the previous evaluation, where the bank's geographic distribution of small business loans was described as poor due to having made no loans in the low-income CT or moderate-income CTs over the review period. Despite the increase in lending to the area's moderate-income geographies, overall the bank's geographic distribution of small business loans is considered poor.

Borrower Profile

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among borrowers of different income levels and businesses of different revenue sizes. This conclusion is supported by reasonable penetration for both home mortgage and small business loans.

Home Mortgage Loans

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels, as illustrated in the following table.

| Distribution of Home Mortgage Loans by Borrower Income Level | | | | | | |
|---|----------------------|-------------------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area: Bellingham MSA | | | | | | |
| Borrower Income Level | % of Families | Aggregate Performance % of # | # | % | \$(000s) | % |
| Low | | | | | | |
| 2019 | 20.8 | 4.0 | 0 | 0.0 | 0 | 0.0 |
| 2020 | 20.8 | 4.2 | 3 | 3.2 | 384 | 0.8 |
| Moderate | | | | | | |
| 2019 | 17.1 | 15.4 | 6 | 19.4 | 1,241 | 10.6 |
| 2020 | 17.1 | 16.5 | 13 | 13.7 | 2,462 | 4.9 |
| Middle | | | | | | |
| 2019 | 22.5 | 25.5 | 7 | 22.6 | 1,460 | 12.5 |
| 2020 | 22.5 | 25.6 | 25 | 26.3 | 7,536 | 15.0 |
| Upper | | | | | | |
| 2019 | 39.6 | 44.4 | 15 | 48.4 | 7,403 | 63.3 |
| 2020 | 39.6 | 40.8 | 45 | 47.4 | 19,981 | 39.7 |
| Not Available | | | | | | |
| 2019 | 0.0 | 10.8 | 3 | 9.7 | 1,587 | 13.6 |
| 2020 | 0.0 | 12.9 | 9 | 9.5 | 20,020 | 39.7 |
| Totals | | | | | | |
| 2019 | 100.0 | 100.0 | 31 | 100.0 | 11,691 | 100.0 |
| 2020 | 100.0 | 100.0 | 95 | 100.0 | 50,382 | 100.0 |

*Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data
Due to rounding, totals may not equal 100.0*

First Fed made no loans to low-income borrowers in 2019. However, the bank’s rate of lending to low-income borrowers improved in 2020 to 3.2 percent, falling slightly short of HMDA aggregate data. First Fed’s rate of lending to moderate-income borrowers exceeded aggregate and demographic data in 2019. The bank’s rate of lending to moderate-income borrowers in 2020 was below aggregate data, but not to an unreasonable degree. Additionally, examiners note that the bank’s lending to LMI borrowers has improved markedly since the previous performance evaluation, where the borrower profile of home mortgage loans in the AA was found to be poor. Overall, the bank’s dispersion of borrowers by income level is reasonable.

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different sizes, as reflected in the following table.

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area: Bellingham MSA | | | | | |
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | 90.1 | 4 | 5.7 | 343 | 6.6 |
| >1,000,000 | 3.5 | 4 | 5.7 | 665 | 12.8 |
| Revenue Not Available | 6.4 | 62 | 88.6 | 4,196 | 80.6 |
| Total | 100.0 | 70 | 100.0 | 5,204 | 100.0 |
| <i>Source: 2021 D&B Data, 1/1/2021 - 12/31/2021 Bank Data. Due to rounding, totals may not equal 100.0</i> | | | | | |

At 5.7 percent, First Fed’s rate of lending to businesses with GARs of \$1 million or less was far below the percentage of businesses in the AA that reported such revenues in 2021. However, this lending performance is distorted by the large number of loans made without business revenue information. When only considering small business loans with revenues collected, First Fed’s distribution of loans to businesses with GARs of \$1 million or less amounted to 50.0 percent, which is still below business demographics; however, there are additional considerations.

Of the 62 small business loans without revenue information available, 55 (88.7 percent) were PPP loans, which did not require the collection of revenue information and were particularly impactful to smaller businesses. Additionally, of the 70 small business loans made in the AA in 2021, 57 loans (81.4 percent) were made in amount of \$100,000 or less and 66 loans (94.3 percent) were made in amounts of \$250,000 or less. Though actual business revenues were not available in the small business data analyzed, the volume of relatively smaller-dollar loans evidences the bank’s willingness to extend credit to the AA’s smaller businesses. Based on this additional context, First Fed’s rate of lending to businesses with GARs of \$1 million or less is considered reasonable.

COMMUNITY DEVELOPMENT TEST

First Fed’s CD performance in the Bellingham MSA AA demonstrates poor responsiveness to CD needs through CD loans, qualified investments, and CD services, considering the institution’s capacity and the need and availability of such opportunities for CD in the AA.

Community Development Loans

First Fed was not active in providing CD loans in the AA. The bank made no CD loans in the AA over the evaluation period. This is a decline from the previous evaluation where the bank made 2 CD loans totaling \$1.4 million. This also below the level of CD lending of a similarly-situated institution operating in the AA.

Qualified Investments

First Fed made no qualified investments and 24 donations totaling \$311,000 benefitting the AA over the evaluation period. The vast majority of donation activity by number and dollar volume supported community services primarily benefitting LMI individuals in the AA. At the previous

evaluation, the bank made no qualified investments and 13 donations totaling \$131,000. This performance is also consistent with the similarly-situated institution reviewed.

Notable examples of the bank's qualified donations include the following:

- Between 2019 and 2021, First Fed made 3 donations totaling \$17,500 to an organization that supports homeless individuals in the community with transitional housing, parenting education, behavioral health counseling, and community resource referrals.
- In 2020, the bank donated \$7,500 to an area food bank in order to address food insecurity in the community that was exacerbated by the economic impact of the COVID-19 pandemic.
- In 2021, the First Federal Community Foundation awarded a \$40,000 grant to an institution of higher education to develop a pilot program supporting economic development. The program will deliver free technical assistance to small and startup businesses in the AA.

Community Development Services

First Fed was not active in performing CD services in the AA; the bank did not provide any qualified CD services over the evaluation period. The bank similarly did not provide any qualified CD services during the previous evaluation. This compares unfavorably to the similarly-situated institution reviewed. Examiners acknowledge the impact of the COVID-19 pandemic on in-person CD service opportunities in 2020 and 2021. However, the bank's CD service activity in the Bellingham MSA AA also trailed performance in the other AAs and the peer institution reviewed in 2019 despite a lack of impediments.

SEATTLE MSA – LIMITED-SCOPE REVIEW

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE SEATTLE MSA

First Fed operates 1 of its 14 branches in the Seattle MSA AA. The AA is new since the previous evaluation, with the bank having acquired and opened a branch location in Bellevue, King County, Washington on July 26, 2021. Therefore, examiners considered loans originated within and CD activities benefitting the Seattle MSA AA beginning in 2021 for this review. Of the 1,820 home mortgage loans totaling \$720.1 million made within the bank’s AAs during between 2019 and 2021, First Fed originated or purchased 98 loans (5.4 percent) totaling \$130.1 million (18.1 percent) inside the Seattle MSA AA in 2021. Of the 491 small business loans totaling \$51.2 million made inside the bank’s AAs in 2021, First Fed originated or renewed 41 loans (8.4 percent) totaling \$11.3 million (22.1 percent) inside the Seattle MSA AA. Due to when the bank opened its King County branch location, First Fed’s deposit presence in the AA is not reflected in the most recent FDIC Deposit Market Share Report. Given First Fed’s branch network, lending activity, and deposit concentrations, the bank’s lending performance in the Seattle MSA AA carries significantly less weight than the Non-MSA AA, and slightly less weight than the Bremerton MSA AA and Bellingham MSA AA.

Economic and Demographic Data

According to 2015 ACS data, the Seattle MSA AA contains 398 CTs: 20 low-income, 80 moderate-income, 154 middle-income, 141 upper-income, and 3 CTs with no income designation. The following table includes family, housing, and business demographic information for the AA.

| Demographic Information of the Assessment Area | | | | | | |
|---|-----------|---------------|------------------------------|------------------|-----------------|---------------|
| Assessment Area: Seattle MSA | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 398 | 5.0 | 20.1 | 38.7 | 35.4 | 0.8 |
| Population by Geography | 2,045,756 | 5.1 | 20.5 | 38.0 | 35.9 | 0.4 |
| Housing Units by Geography | 871,836 | 4.7 | 19.8 | 38.3 | 36.9 | 0.2 |
| Owner-Occupied Units by Geography | 470,632 | 2.7 | 15.2 | 40.4 | 41.7 | 0.0 |
| Occupied Rental Units by Geography | 349,019 | 7.4 | 25.6 | 35.8 | 30.7 | 0.5 |
| Vacant Units by Geography | 52,185 | 5.5 | 22.3 | 36.2 | 35.7 | 0.3 |
| Businesses by Geography | 267,610 | 4.9 | 15.0 | 34.6 | 44.4 | 1.0 |
| Farms by Geography | 4,274 | 3.3 | 14.3 | 40.2 | 39.9 | 2.2 |
| Family Distribution by Income Level | 488,006 | 21.0 | 16.4 | 19.5 | 43.1 | 0.0 |
| Household Distribution by Income Level | 819,651 | 24.2 | 15.6 | 17.0 | 43.2 | 0.0 |
| Median Family Income MSA - 42644 Seattle-Bellevue-Kent, WA | | \$92,317 | Median Housing Value | | | \$410,534 |
| | | | Median Gross Rent | | | \$1,241 |
| | | | Families Below Poverty Level | | | 7.0% |
| <i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

While the unemployment rate in the AA followed state and national trends by increasing significantly in 2020 and declining in 2021, King County experienced a lower unemployment rate than Washington State and the nation as a whole over the evaluation period. Refer to the following table for additional details.

| Unemployment Rates | | | |
|--|------|------|------|
| Area | 2019 | 2020 | 2021 |
| | % | % | % |
| King County | 2.6 | 7.6 | 4.7 |
| Washington State | 4.3 | 8.5 | 5.3 |
| National Average | 3.7 | 8.1 | 5.4 |
| <i>Source: U.S. Bureau of Labor Statistics</i> | | | |

The median family income in the Seattle-Bellevue-Kent MSA increased 6.5 percent over the review period, from \$108,600 to \$115,700, according to FFIEC data. According to FRED information, the average median listing price of a house in King County increased 3.7 percent over the review period, from \$713,448 in 2019 to \$740,073 in 2021. Meanwhile, the average median days on the market decreased 22.1 percent, from 44.2 days in 2019 to 34.4 days in 2021. According to HUD, 14.6 percent of homeowners are cost-burdened, spending more than 30 percent of household income on housing costs, and 9.3 percent are severely cost-burdened, spending more than 50

percent of household income on housing costs, in King County. According to HUD, fair market rent for a one-bedroom apartment in King County increased 11.7 percent between 2019 and 2022. Of the renters in the area, 21.9 percent are cost-burdened and 19.8 percent are severely cost-burdened.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE SEATTLE MSA

LENDING TEST

First Fed’s lending performance in the Seattle MSA AA is generally consistent with the lending performance in the AAs that were reviewed using full-scope procedures and the institution overall. While the distribution of home mortgage loans by borrower income level is below the institution’s overall lending performance, this does not change the institution’s Lending Test rating.

Geographic Distribution

Home Mortgage Loans

| Geographic Distribution of Home Mortgage Loans | | | | | |
|---|--|-----------|--------------|-----------------|--------------|
| Assessment Area: Seattle MSA | | | | | |
| Tract Income Level | % of Owner-Occupied Housing Units | # | % | \$(000s) | % |
| Low | 2.7 | 4 | 4.1 | 4,694 | 3.6 |
| Moderate | 15.2 | 12 | 12.2 | 10,025 | 7.7 |
| Middle | 40.4 | 30 | 30.6 | 32,489 | 25.0 |
| Upper | 41.7 | 52 | 53.1 | 82,890 | 63.7 |
| Not Available | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | 100.0 | 98 | 100.0 | 130,097 | 100.0 |
| <i>Source: 2015 ACS Data; 2021 HMDA Reported Data Due to rounding, totals may not equal 100.0</i> | | | | | |

Small Business Loans

| Geographic Distribution of Small Business Loans | | | | | |
|---|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area: Seattle MSA | | | | | |
| Tract Income Level | % of Businesses | # | % | \$(000s) | % |
| Low | 4.9 | 3 | 7.3 | 1,887 | 16.7 |
| Moderate | 15.0 | 9 | 22.0 | 1,719 | 15.2 |
| Middle | 34.6 | 15 | 36.6 | 4,257 | 37.7 |
| Upper | 44.4 | 14 | 34.1 | 3,441 | 30.4 |
| Not Available | 1.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | 100.0 | 41 | 100.0 | 11,304 | 100.0 |
| <i>Source: 2021 D&B Data; 1/1/2021 - 12/31/2021 Bank Data Due to rounding, totals may not equal 100.0</i> | | | | | |

Borrower Profile

Home Mortgage Loans

| Distribution of Home Mortgage Loans by Borrower Income Level | | | | | |
|---|--|-----------|--------------|-----------------|--------------|
| Assessment Area: Seattle MSA | | | | | |
| Tract Income Level | % of Owner-Occupied Housing Units | # | % | \$(000s) | % |
| Low | 21.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate | 16.4 | 6 | 6.1 | 2,447 | 1.9 |
| Middle | 19.5 | 6 | 6.1 | 2,707 | 2.1 |
| Upper | 43.1 | 58 | 59.2 | 58,736 | 45.1 |
| Not Available | 0.0 | 28 | 28.6 | 66,207 | 50.9 |
| Totals | 100.0 | 98 | 100.0 | 130,097 | 100.0 |
| <i>Source: 2015 ACS Data; 2021 HMDA Reported Data Due to rounding, totals may not equal 100.0</i> | | | | | |

Small Business Loans

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area: Seattle MSA | | | | | |
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | 89.8 | 5 | 12.2 | 1,657 | 14.7 |
| >1,000,000 | 3.5 | 5 | 12.2 | 813 | 7.2 |
| Revenue Not Available | 6.6 | 31 | 75.6 | 8,834 | 78.1 |
| Total | 100.0 | 41 | 100.0 | 11,304 | 100.0 |
| <i>Source: 2021 D&B Data, 1/1/2021 - 12/31/2021 Bank Data. Due to rounding, totals may not equal 100.0</i> | | | | | |

COMMUNITY DEVELOPMENT TEST

First Fed’s CD performance in the Seattle MSA AA is consistent with the institution’s CD performance in the AAs that were reviewed using full-scope examination procedures and the institution overall. Over the evaluation period, First Fed made 7 CD loans totaling approximately \$16.7 million, 1 qualified investment totaling \$1.0 million, and 8 grants and donations totaling approximately \$7,000. Additionally, First Fed employees provided 24 hours of qualified CD service activity.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.