



## **PUBLIC DISCLOSURE**

February 24, 2014

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

Scottsburg Building and Loan Association  
Charter Number 704315

306 W. McClain Ave  
Scottsburg, Indiana 47170

Office of the Comptroller of the Currency

10200 Forest Green Blvd  
Suite 501  
Louisville, Kentucky 40223

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

This Performance Evaluation communicates the results of an assessment of the Community Reinvestment Act (CRA) performance of Scottsburg Building and Loan Association, Scottsburg, Indiana (Bank). The evaluation was prepared by the Office of the Comptroller of the Currency (OCC), the institution's primary regulator, as of December 31, 2013. The OCC rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR 195.

## **INSTITUTION'S OVERALL CRA RATING: SATISFACTORY**

The Bank has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- The average loan-to-deposit (LTD) ratio is reasonable given the Bank's size, financial condition, and the credit needs of its assessment area (AA).
- A substantial majority of the Bank's loans were originated to borrowers within its AA.
- The Bank's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.
- The Bank's geographic distribution of loans reflects reasonable dispersion throughout the AA.

## **SCOPE OF THE EXAMINATION**

This Performance Evaluation assesses Bank's record of meeting the credit needs of the community in which it operates. The Bank was evaluated using the Small Bank Examination Procedures. These procedures include a lending test to evaluate the Bank's record of meeting the credit needs of its AA through its lending activities.

The CRA evaluation covers the period between May 19, 2009 and February 24, 2014. The scope of the lending test included a review of the Bank's primary loan product – residential real estate mortgages. We determined the primary loan product by reviewing available lending reports for the representative timeframe and through discussions with management. Examiners considered all home mortgage loans reported according to the Home Mortgage Disclosure Act (HMDA) Data Collection requirements between January 1, 2012 and December 31, 2013. The Bank chose to report HMDA data even though their AA was not part of a Metropolitan Statistical Area (MSA) during this period. The Bank originated 230 residential real estate loans, totaling nearly \$19.9 during this period. Prior to conducting this evaluation, we tested the accuracy of the Bank's HMDA data for 2012 and 2013. We found the data to be accurate. Therefore, we used all reported HMDA data for both years in our evaluation of home mortgage lending.

Additionally, we obtained aggregate HMDA peer group data for the lending test. Since aggregate HMDA data for 2013 is not yet available, aggregate HMDA data from 2012 was used as peer group data for analyzing residential loans originated and purchased in both 2012 and 2013.

The institution's overall rating is the aggregate of conclusions reached in the lending test.

## **DESCRIPTION OF THE INSTITUTION**

Scottsburg Building and Loan Association is a full-service, intrastate institution located in Scottsburg, Indiana. It is a wholly owned subsidiary of Scottsburg B&L, MHC, a single-thrift holding company also located in Scottsburg, Indiana. The Bank is located in Southern Indiana off Interstate 65, approximately 30 miles north of Louisville, Kentucky. As of December 31, 2013, it had approximately \$90 million in total assets, \$68 million in deposits, \$45 million in loans, and \$11 million in tier 1 capital. The Bank operates from a main office in Scott County. The facility is full service and has an Automated Teller Machine (ATM) on location.

As of December 31, 2013, net loans represented approximately 48 percent of average assets. The loan portfolio mix was as follows: one-to-four family residential real estate loans (88.5 percent), business purpose loans (11.3 percent), and consumer loans (0.2 percent). The Bank's primary lending focus is residential real estate mortgages.

The Bank offers traditional banking services and lending products. It continues to be community oriented and primarily offers loan products focused on residential real estate. However, the Bank also offers loan products for commercial real estate, commercial and industrial, and consumer loans.

There are no legal or financial circumstances that impact the Bank's ability to meet the credit needs of its community. The last CRA evaluation was performed by the Office of Thrift Supervision (OTS) on May 19, 2009.<sup>1</sup> The Bank earned a satisfactory rating.

## **DESCRIPTION OF THE ASSESSMENT AREA**

The Bank's AA consists of Scott County, Indiana. The AA is appropriate in relation to the location of the Bank's office and does not arbitrarily exclude any low- or moderate-income areas.

According to the 2010 United States (U.S.) Census, the population of Scott County was approximately 24,200, which increased from approximately 23,000 as of the 2000 U.S. Census. Scott County was removed from the Louisville MSA in 2003. The 2010 U.S. Census divides Scott County into five census tracts (CTs), with zero low-income CTs, two moderate-income CTs, two middle-income CTs, and one upper-income CT.

As of December 31, 2013, Scott County's unemployment rate was 6.6 percent, which is slightly higher than the Indiana unemployment rate of 6.3 percent. The major industry in Scott County is manufacturing, which accounts for 25 percent of all jobs in the county. The Indiana Department

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<sup>1</sup> Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the OTS was merged into the OCC on July 21, 2011.

of Workforce Development website lists the following companies as the largest employers in the county.

- Wal-Mart Stores, Inc. operates a Wal-Mart Supercenter in Scottsburg, Indiana. The Wal-Mart Supercenter provides a wide variety of goods and services.
- Morgan Foods, Inc. produces and supplies condensed soups and other mixed-ingredient products for the private-label food industry in the U.S. They are based in Austin, Indiana.
- Scott Memorial Hospital is a provider of medical services located in Scottsburg, Indiana.
- Austin Tri-Hawk Automotive, Inc. manufactures automotive structural supports out of its facility in Austin, Indiana.
- Ilpea Industries, Inc. operates a production facility in Scottsburg, Indiana and manufactures a wide variety of products used in the commercial refrigeration, home appliances, automobile, and manufacturing industries.

According to Federal Deposit Insurance Corporation (FDIC) data, there are a total of six financial institutions in the AA, ranging from small community banks to a branch of a large national bank. The total deposits (inside the AA) of these branches or banks range from \$11 million to \$119 million. The Bank is the second largest bank in the AA in relation to local deposits, with a 27 percent deposit market share. The Bank's major competition in the AA consists of The Scott County State Bank, JPMorgan Chase Bank, N.A., and Old National Bank.

We performed one community contact interview during our evaluation. The contact identified small business loans as a credit need of the community. The contact indicated local banks are active in meeting these needs.

The following demographic information covering the Bank’s AA of Scott County is based on 2010 census data, unless otherwise indicated.

| <b>Demographic Information for Scott County</b>                 |          |                      |               |               |                 |
|---|----------|----------------------|---------------|---------------|-----------------|
|   | #        | Low %<br>of #        | Mod %<br>of # | Mid %<br>of # | Upper %<br>of # |
| Census Tracts   | 5        | 0                    | 40            | 40            | 20              |
| Population by Geography   | 24,181   | 0                    | 39.24         | 41.86         | 18.90           |
| Owner-Occupied Housing by Geography                             | 7,042    | 0                    | 36.44         | 45.02         | 18.54           |
| Businesses by Geography   | 1,378    | 0                    | 48.18         | 34.33         | 17.49           |
| Farms by Geography  | 96       | 0                    | 15.63         | 61.45         | 22.92           |
| Families by Income Level  | 6,651    | 20.88                | 23.14         | 22.38         | 33.60           |
| Distribution of Low- and Moderate-Income Families throughout AA | 2,928    | 0                    | 43.95         | 46.00         | 10.05           |
| Median Family Income  | \$48,590 | Median Housing Value |               | \$98,767      |                 |
| HUD Adjusted Median Family Income (2013)                        | \$52,700 | Unemployment Rate    |               | 6.6%          |                 |
| Households Below the Poverty Level                              | 14.23%   |                      |               |               |                 |

Source: 2010 U.S. Census and 2013 HUD updated MFI. These figures were obtained directly from U.S. Census data and may or may not total exactly 100 percent.

## **CONCLUSIONS ABOUT THE PERFORMANCE CRITERIA**

### **Lending Test**

The Bank’s performance under the lending test is satisfactory. The LTD is reasonable and a substantial majority of the Bank’s loans were originated inside its AA. The Bank’s borrower distribution reflects reasonable penetration among borrowers of different income levels. The Bank’s geographic distribution reflects reasonable dispersion. There were no complaints regarding the Bank’s performance in meeting the credit needs of the community.

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

The LTD meets the standards for reasonable performance given the Bank’s size, financial condition, and the AA’s credit needs. Its average LTD over the 19 quarters since the last CRA public evaluation was 65 percent. This ratio ranged from a quarterly low of 61 percent to a quarterly high of 69 percent during the evaluation period.

We compared the Bank’s LTD ratio to that of four similarly situated local banks. The table below shows the average LTD of the other banks for the same period ranged from 48 percent to 85 percent. The Bank’s LTD ratio was similar to that of its local competitors.

| Institution                              | Average LTD |
|--|-------------|
| Scottsburg Building and Loan Association | 65          |
| Bank 1                                   | 85          |
| Bank 2                                   | 67          |
| Bank 3                                   | 61          |
| Bank 4                                   | 48          |

**Lending in the Assessment Area**

A substantial majority of loans and other lending-related activities are inside the Bank’s AA. Table 1 shows that 81 percent of residential loans were made to borrowers inside the AA. To reach this conclusion, the OCC analyzed data from the Bank’s HMDA Loan Application Register (LAR) for 2012 and 2013.

| Loan Type                     | Number of Loans |       |         |       | Total | Dollars of Loans (000’s) |       |         |       | Total  |
|-------------------------------|-----------------|-------|---------|-------|-------|--------------------------|-------|---------|-------|--------|
|                               | Inside          |       | Outside |       |       | Inside                   |       | Outside |       |        |
|                               | #               | %     | #       | %     |       | \$                       | %     | \$      | %     |        |
| Residential Real Estate Loans | 230             | 81.27 | 53      | 18.73 | 283   | 15,691                   | 79.03 | 4,164   | 20.97 | 19,855 |

Source: 2012 and 2013 HMDA LAR.

**Lending to Borrowers of Different Incomes**

The distribution of loans reflects reasonable penetration among individuals of different income levels. To reach this conclusion, the OCC analyzed the Bank’s HMDA LAR data between January 1, 2012 and December 31, 2013. The OCC compared this data to peer mortgage data, which consists of all HMDA reportable loans extended within the Bank’s AA. See Table 2 for details.

Income Distribution of Residential Real Estate Loans

The distribution of loans, given the peer mortgage data, reflects reasonable penetration among individuals of different income levels, including low- and moderate-income families. The Bank’s competition for mortgage lending consists of four larger banks and a credit union. While the Bank operates one office in the AA, these competing institutions operate 10 offices within the AA in aggregate. In addition, the Bank’s residential lending products are limited to fixed-rate mortgages and home equity lines of credit. With the exception of one local bank, all of the competing institutions are regional banks that offer more diverse lending products.

The Bank originated 8 percent of residential loans to low-income families and 20 percent to moderate-income families. This is similar to the peer lending comparator of 9 percent for low-

income families and 24 percent for moderate-income families. The level of penetration is reasonable given the competition and barriers detailed above.

| <b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Scott County for 2012-2013</b> |          |          |                             |
|---|----------|----------|-----------------------------|
| <b>Borrower Income Category</b>   | <b>#</b> | <b>%</b> | <b>% Peer Mortgage Data</b> |
| Low   | 18       | 7.83     | 9.15                        |
| Moderate  | 46       | 20.00    | 23.91                       |
| Middle  | 67       | 29.13    | 23.08                       |
| Upper   | 99       | 43.04    | 37.63                       |
| NA*   | 0        | 0.00     | 6.24                        |
| Total   | 230      | 100.00   | 100.00                      |

*(\*) The NA category consists of originations where income information was not available.  
Sources: 2012- 2013 HMDA LAR and 2012 Peer Mortgage Data.*

### **Geographic Distribution of Loans**

The overall geographic distribution of loans reflects reasonable dispersion throughout the AA given the strong level of competition. To reach this conclusion, the OCC analyzed the Bank’s HMDA LAR data between January 1, 2012 and December 31, 2013. The OCC compared this data to peer mortgage data, which consists of all HMDA reportable loans extended within the Bank’s AA. See Table 3 for details.

#### Geographic Distribution of Residential Real Estate Loans

The geographic distribution of loans reflects reasonable dispersion into moderate-income CTs. The analysis reflects lending in all tracts. There are no low-income CTs in the Bank’s AA. Scott County’s two moderate-income CTs are located in the cities of Scottsburg and Austin. While the Bank does not have a physical presence in Austin, two of its competitors operate offices there. The Bank originated 34 percent of its residential real estate loans to borrowers living in moderate-income CTs. The Bank’s lending performance in moderate-income CTs is comparable to the peer group’s 36 percent. This is a reasonable performance given the high level of competition in the AA.

| <b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Scott County for 2012-2013</b> |          |          |                             |
|---|----------|----------|-----------------------------|
| <b>Census Income Tract Level</b>  | <b>#</b> | <b>%</b> | <b>% Peer Mortgage Data</b> |
| Low   | 0        | 0        | 0                           |
| Moderate  | 78       | 33.91    | 35.55                       |
| Middle  | 108      | 46.96    | 38.46                       |
| Upper   | 44       | 19.13    | 25.99                       |
| Total   | 230      | 100      | 100                         |

*Sources: 2012-2013 HMDA LAR and 2012 Peer Mortgage Data*

**Responses to Complaints**

The Bank has not received any CRA complaints during this evaluation period.

**Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 195.28(c), in determining a federal savings association’s (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any AA by an affiliate whose loans have been considered as part of the FSA’s lending performance.

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