



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 17, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Newton Federal Bank
Charter Number 703575

3175 Highway 278
Covington, Georgia 30014

Office of the Comptroller of the Currency

1475 Peachtree Street, NE, Atlanta, Georgia 30309

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

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

Newton Federal Bank's CRA performance rating is supported by the following:

- a loan-to-deposit (LTD) ratio which is reasonable in light of the bank's size, business strategies, and loan demand within the assessment area;
- a substantial majority of home loan originations inside the assessment area;
- a reasonable penetration of a sample of home mortgage loans among borrowers of different income levels; and,
- an excellent penetration of a home mortgage loans among census tracts of different income levels.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of Newton Federal Bank's ability to meet the credit needs of the communities in which it operates. Examiners conducted a full-scope review of the bank's assessment area, which is defined as Newton County. Newton County is part of the Atlanta-Sandy Springs-Marietta, Georgia Metropolitan Statistical Area. This evaluation covered the period of December 2007 to October 2011, with a review of Home Mortgage Disclosure Act (HMDA)-reportable loans originated from January 2009 to August 2011. Loan performance was determined by analyzing the bank's primary lending activity, which for 2009, 2010, and the first eight months of 2011, was home mortgage loans.

The preceding CRA evaluation was conducted as of November 26, 2007, and resulted in a rating of "Satisfactory".

DESCRIPTION OF INSTITUTION

Newton Federal Bank is a federally-chartered mutual savings association established in 1947 and headquartered in Covington, Georgia. As of June 30, 2011, the bank had total assets of \$247 million. The bank conducts business from its main office in Covington, which is located in Newton County. The bank also operates two branch locations, both of which are located in Newton County as well. The bank operates drive-through facilities and automated teller machines at all three locations. As of October 2011, the bank had 50 full-time and 6 part-time employees. There were no legal or regulatory impediments adversely affecting the bank's ability to meet the community credit needs of its assessment area.

The bank delivers its lending and deposit products to the public primarily through its main office and branch office locations. The bank also offers telephone and Internet banking. By telephone and

Internet, customers can make balance and transaction inquiries and transfer funds between accounts with Newton Federal Bank. Over the Internet through the bank's bill pay service, customers can make loan payments to Newton Federal Bank, as well as pay bills owed to any merchant, institution, or creditor. Lobby hours for the main office and branch locations are 8:30 a.m. through 5:00 p.m. Monday through Friday. The drive-through facilities for the three locations are 8:30 a.m. through 5:00 p.m. Monday through Thursday, and 8:30 a.m. through 5:00 p.m. on Friday. All three drive-through facilities have Saturday hours from 8:30 a.m. through 12:00 p.m.

The bank offers fixed-rate first and second lien mortgage loans for the purchase, construction and refinancing of residential dwellings. In addition, the bank offers investment mortgages secured by residential dwellings. Offerings also include mortgages with loan-to-value ratios up to 85 percent without private mortgage insurance (PMI), as well as mortgages with higher loan-to-value ratios when PMI is obtained. Closed-end home equity loans are available, as are open-end home equity lines of credit. Consumer loan offerings include automobile loans and secured and unsecured loans for purposes of debt consolidation, vacation, education, major purchases or other personal needs. The bank also offers small business loans, commercial and residential renovation and rehabilitation loans, as well as loans for land acquisition.

As indicated above, Newton Federal Bank's primary lending product is home mortgage loans. As of June 30, 2011, 65.00 percent of the bank's assets were concentrated in residential permanent mortgages on 1-4 family dwelling units. At the same time, commercial loans represented less than one percent of balance sheet assets, with consumer loans representing 1.1 percent of assets. For the first quarter of 2011, Newton Federal Bank originated \$4.8 million in 1-4 family permanent mortgages, but only \$127 thousand and \$270 thousand in commercial and consumer loans, respectively.

DESCRIPTION OF ASSESSMENT AREA(S)

Newton Federal Bank's assessment area is designated as Newton County, Georgia, which is part of the Atlanta-Sandy Springs-Marietta, Georgia Metropolitan Statistical Area (Atlanta MSA). The main office is located in the city of Covington, which is the county's largest municipality. The Department of Housing and Urban Development's adjusted median family income for the Atlanta MSA increased from \$71,700 for 2009, to \$71,800 in 2010. However, the adjusted median family income for 2011 decreased to \$68,300. Based on the examiner's review of the location of the bank's offices and the distribution of its loan originations, the examiner is of the opinion that the assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income census tracts.

The table below, which is based on 2000 U.S. Census data, sets forth a summary of certain demographics for the Newton County assessment area. A low-income census tract/borrower is one with a median family income (MFI) of less than 50.0 percent of the MFI of an MSA, a moderate-

income census tract/borrower is one with a MFI of at least 50.0 percent, and less than 80 percent of the MFI of an MSA, a middle-income census tract/borrower is one with a MFI of at least 80.0 percent, and less than 120.0 percent of the MFI of an MSA, and an upper-income census tract/borrower is one with a MFI of 120.0 percent or more of the MFI of an MSA.

Demographic and Economic Characteristics of Newton County Assessment Area	
Population	
Total Population	62,001
Number of Families	17,188
Number of Households	21,989
Geographies	
Number of Census Tracts	9
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	44.44%
% Middle-Income Census Tracts	55.56%
% Upper-Income Census Tracts	0.00%
Median Family Income (MFI)	
2000 MFI for AA	\$58,537
2010 HUD-Adjusted MFI	\$71,800
Economic Indicators	
2010 Unemployment Rate	11.9%
2010 Median Housing Value	\$101,737
% Households Below Poverty Level	9.28%

Source: Updated 2000 census and HUD data. All of these county figures are based on published demographic information.

Of the nine census tracts in the Newton County assessment area, none are designated as low-income or upper-income. Four of the nine census tracts in the assessment area are moderate-income, and five are middle-income. Newton County Federal's main office and two branch offices are all located in moderate-income census tracts. As indicated in the above table, there are 21,989 households in Newton County. Of the 21,989 households, 28.46 percent are in moderate-income census tracts, and 71.54 percent are in middle-income census tracts. As for housing units, 74.24 percent are owner-occupied and 21.27 percent are rental units. In addition, 8.68 percent of housing units in Newton County are mobile homes and 87.77 percent are 1-4 family units. The median value of housing units is \$101,737, with an average age of 7 years.

Data obtained from the U.S. Census Bureau showed a sharp decline in residential building permits in Newton County since the preceding CRA evaluation. Specifically, 956 residential building permits were issued during 2007. For 2008, that number dropped to 189, and then dropped again to 54 for 2009, with a moderate increase to 58 for 2010. In addition, the U.S. Department of Labor Statistics reports that the unemployment rate for Newton County is 12.7 percent for 2010, which is higher than the 2010 unemployment rate of 10.4 percent for the entire Atlanta MSA. Further, as indicated above, the adjusted MFI for Newton County decreased from \$71,800 in 2010, to \$68,300 in 2011. The slowed demand in Newton County for residential building permits and the county's relatively high unemployment rate and lowered MFI, are factors which reflect a decline in the assessment

area's economy. This economic decline would certainly impede Newton Federal Bank's ability to lend in its assessment area.

Altogether, there are approximately 8,000 businesses located in Newton County. Data obtained from the Newton County Government shows that some of the largest manufacturers located in the county include Astro Plastics, Beaver Manufacturing, Bridgestone Golf, Clairon Metals, Duro Tire and Wheel, and General Mills. The U.S. Census Bureau's 2010 Business Geodemographic data indicates that the largest sector of employment in the county is services jobs, with 50.10 percent of the county's jobs in that sector. The second largest is retail trade, with 9.85 percent of the county's jobs. In 2010, 80.41 percent of Newton County's businesses produced annual revenues of less than \$.5 million. In addition, Business Geodemographic data for that year also shows that 28.83 percent of businesses with less than \$.5 million in annual revenue are located in the county's moderate-income census tracts.

Newton Federal Bank encounters substantial competition from other lenders operating within its assessment area. As of June 30, 2011, aside from Newton Federal Bank, there were nine FDIC-insured financial institutions operating within Newton County, with a total of 18 branch locations in the county. As of that same date, the bank had \$198.5 million in deposits in Newton County. The bank's deposit market share percentage in Newton County was 24.80 percent, the highest in the county. The second highest was Synovus Bank, with \$197.3 million in deposits in Newton County and a deposit market share of 24.65 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Information compiled from the Uniform Thrift Performance Reports disclosed that Newton Federal Bank's LTD ratio averaged 104.27 percent over the ten business quarters ended June 30, 2011. This percentage is significantly higher than the average LTD ratio of 88.46 percent during this same period for similarly sized savings associations with assets between \$100 million and \$300 million (peer group). The bank's LTD ratio steadily decreased from its ten business quarter high of 109.02 percent for the quarter ended June 30, 2009, to its ten quarter low of 98.56 percent as of March 31, 2011. The peer group experienced a similar decrease during the ten business quarters ended June 30, 2011. The peer group average LTD ratios peaked at 93.75 percent for the quarter ended March 31, 2009, and declined to a low of 82.04 percent for the quarter ended March 31, 2011.

Based on the foregoing, we determined that Newton Federal Bank's ten quarter average LTD ratio of 104.27 percent exceeds the standards for satisfactory performance for this criterion.

Lending in Assessment Area

During the evaluation period, Newton Federal Bank originated a majority of its home mortgages within its Newton County assessment area. To determine lending within the assessment area, we reviewed HMDA-reportable loans originated from January 2009 through August 2011. The following table reflects the ratios of home mortgages originated inside and outside the assessment area by number and dollar amount of loans.

Table 1 - Lending in Newton County, GA Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loans	308	73.51%	111	26.49%	419	\$30,418	68.02%	\$14,296	31.98%	\$44,714

Source: Indicate source: HMDA Data for 2009, 2010, and 2011 through August 30. U.S. Census data.

As reflected in the above table, 73.51 percent of the bank’s loans by number and 68.02 percent by dollar volume were originated within the Newton County assessment area.

Based on our review, we determined that the bank’s percentage of lending within its Newton County assessment area meets the standards for satisfactory performance for this criterion.

Lending to Borrowers of Different Incomes and to Businesses of Different Size

The examiner’s review of Newton Federal Bank’s HMDA-reportable loans for 2009, 2010, and 2011 through August, disclosed the following information concerning lending to borrowers of different income levels within the Newton County assessment area. For purposes of this analysis, family income levels were stratified as a percentage of the updated MFI for the Atlanta MSA. As indicated above, the updated MFI figures, as provided by the Department of Housing and Urban Development, for the Atlanta MSA for 2009, 2010, and 2011 were \$71,700, \$71,800, and \$68,300, respectively.

Table 2B - Borrower Distribution of Home Mortgage Loans in Newton County, GA Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Purpose	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Purchase	23.92	16.34	21.29	22.88	23.92	26.80	30.87	23.53
Home Improvement	23.92	32.79	21.29	27.87	23.92	14.75	30.87	11.48
Refinancing	23.92	17.02	21.29	26.60	23.92	22.34	30.87	24.47

Income Not Available on 10.71 percent of loans.

Source: HMDA Data originated within the assessment area for 2009, 2010, and 2011 through August 30. U.S. Census data.

Data in the above table reflects that the bank’s HMDA-reportable lending to borrowers of different

incomes compares very favorably to assessment area demographics. Specifically, the data shows that while 45.21 percent of assessment area households are categorized as either low- or moderate-income, 39.22 percent of the bank’s purchase loans, 66.66 percent of its home improvement loans, and 43.62 percent of its refinancings, were to low- or moderate-income individuals. These percentages are particularly favorable considering that 9.28 percent of households within the assessment area are below poverty level.

Based on the foregoing, we have determined that Newton Federal Bank’s lending to low- and moderate-income borrowers meets the standards for satisfactory performance for this criterion.

Geographic Distribution of Loans

The examiner performed a review to determine the adequacy of dispersion of lending within census tracts of different income levels using HMDA-reportable loans originated inside the Newton County assessment area for 2009, 2010, and 2011 through August. Specifically, we analyzed the percentage of the number of HMDA loans originated by Newton Federal Bank in moderate-income census tracts compared to the percentage of households located in those tracts. As stated above, there are no low-income census tracts within the assessment area. The results of this analysis are presented in the following table:

Table 3B - Geographic Distribution of Home Mortgage Loans in Newton County,GA Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Purpose	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Purchase	0.00	0.00	28.46	40.52	71.54	59.48	0.00	0.00
Home Improvement	0.00	0.00	28.46	49.18	71.54	50.82	0.00	0.00
Refinancing	0.00	0.00	28.46	32.98	71.54	67.02	0.00	0.00

Source: HMDA-reportable loans originated within the assessment area for 2009, 2010, and 2011 through August. U.S. Census data.

As reflected in the above table, the bank’s overall record of HMDA-reportable lending in moderate-income census tracts within the assessment area is significantly higher than the assessment area demographics. According to U.S. Census data, 28.46 percent of households in Newton County are located in moderate-income census tracts. In comparison, Newton Federal Bank originated 40.52 percent of its purchase loans, 49.18 percent of its home improvement loans, and 32.98 percent of its refinancings, in the assessment area’s moderate-income census tracts.

Based on the foregoing, we determined that Newton Federal Bank’s record home mortgage lending in census tracts of different income levels exceeds the standards for satisfactory performance for this

evaluation factor.

Responses to Complaints

The bank has not received any consumer complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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