



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 12, 2012**

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

SouthFirst Bank  
Charter Number 705329

126 N Norton Ave  
Sylacauga, AL 35150-2400

Office of the Comptroller of the Currency

ADC-MIAMI (8518) Field Office  
Doral Costa Office Park 9800 NW 41st Street, Suite 120  
Doral, FL. 33178-2970

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

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

The major factors that support this rating include:

- The bank's average quarterly loan-to-deposit ratio since the last CRA examination is reasonable.
- A majority of loan originations are within the bank's assessment area.
- The distribution of loans among borrowers of different income levels is reasonable, given performance context and the bank's business strategy.
- The geographic distribution of loans reflects reasonable dispersion within the assessment area.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses the bank's performance under the Small Bank Lending Test. In evaluating the bank's lending performance, we reviewed residential mortgage loans, the bank's primary loan product. Overall, residential mortgage lending represents 94 percent of the bank's lending.

The evaluation period ranged from January 1, 2007 to December 31, 2011. The bank has two assessment areas, Non- MSA (Metropolitan Statistical Area) Talladega County and MSA 13280 (Birmingham-Hoover, AL). The Talladega County assessment area received a full-scope review and the MSA 13280 (Birmingham-Hoover, AL) assessment area received a limited-scope review. The Talladega assessment area contains two of the bank's three offices, 67 percent of the bank's deposits, and represents 62 percent of residential mortgage loans originated during the evaluation period.

In reaching our conclusion, primary weight was given to performance in the full-scope assessment area, with the exception of the geographic distribution portion of the Lending Test. The full-scope assessment area did not contain a sufficient number of low- and moderate-income geographies (census tracts) for a meaningful analysis. In the full-scope assessment area primary consideration was given to home improvement and refinance loans because they represented the largest number of loan originations. In the limited scope assessment area primary consideration was given to home purchase and refinance loans which represented the majority of activity in that assessment area.

For our evaluation we relied on Home Mortgage Disclosure Act (HMDA) data submitted by the bank from 2007 to 2011. Prior to our examination it was determined that there were inaccuracies in HMDA reporting for 2007 through 2010. The HMDA data was corrected and that data along with accurate 2011 HMDA data was used for the examination. In addition, we reviewed data maintained by the bank but not reportable under the HMDA regarding investor residential mortgage loans and 2010 aggregate HMDA data in each assessment area, the most recent year

for which the data is available.

## **DESCRIPTION OF INSTITUTION**

SouthFirst is an intrastate federal savings bank (FSB) headquartered in Sylacauga, Alabama (Talladega County). It is wholly owned by SouthFirst Bancshares, Inc. also headquartered in Sylacauga. The bank has no operating affiliates or subsidiaries that would impact this examination. SouthFirst operates three offices in Alabama. In addition to the main office in Sylacauga, there are branches in Talladega and Clanton (Chilton County). No locations are in low- or moderate-income geographies and none have been opened or closed since the last CRA examination.

The bank offers a variety of deposit and loan products for individuals and businesses, as described in the CRA Public File. The bank's primary focus is residential mortgage lending. While SouthFirst maintains some residential mortgage loans in its own portfolio, due to resource constraints, the bank's primary strategy is to facilitate the origination of residential mortgage loans and sell them to other "investor" mortgage lenders. This is particularly true for FHA and USDA/Rural Development loans that are more specialized and complex. Although the bank accepts the mortgage loan application, begins the underwriting process, and originates the loan prior to the sale, it does not make the final credit decision on investor loans and therefore cannot report them under the HMDA.

As of December 31, 2011 the bank had total assets of \$125MM and total deposits of \$109MM. Total loans (net of unearned income and allowance), which represent 73 percent of total assets, equaled \$90.7MM and consisted of 94 percent mortgage loans, 4 percent commercial loans, and 2 percent consumer loans.

During the evaluation period the bank faced considerable challenges to its ability to help meet credit needs in its assessment area. The financial crisis had a negative impact on the local economy which was already weak and thus negatively impacted the bank's ability to originate new loans. Since the last CRA examination, total assets have declined 11 percent from \$141MM. SouthFirst has not been profitable since 2008. These factors were considered as part of our evaluation.

At its last CRA examination, dated February 26, 2007 and conducted by the Office of Thrift Supervision under Intermediate Small Bank (ISB) examination procedures, the bank was rated satisfactory.

## **DESCRIPTION OF ASSESSMENT AREAS**

SouthFirst has two assessment areas. The first consists of all of non-MSA Talladega County. The second consists of all of MSA 13820 (Birmingham-Hoover) which is comprised of Bibb, Blount, Chilton, Cullman, Jefferson, Shelby, St. Clair, and Walker Counties. As of January 1, 2011 the Office of Management and Budget defined this MSA as a Combined Statistical Area (CSA). These assessment areas meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income areas.

Based on the 2000 Census, the Non-MSA Talladega County assessment area consists of 19 census tracts (geographies) of which none are low-income, 2 (11 percent) are moderate-income, 16 (84 percent) are middle-income, and 1 (5 percent) are upper-income. The assessment area is rural in nature with the 2000 Census reporting a total county population of 80,000 people. The 2010 Census estimates a slight increase in population to 82,000. The poverty rate is 19 percent based on 2000 Census data and the 2011 HUD Adjusted Median Family Income for all non-MSA counties in Alabama was \$47,000, having increased from \$42,800 in 2007.

The economy of the assessment area is weak and has suffered from high unemployment rates. During the evaluation period, unemployment in Talladega County reached as high as 14 percent. As of December 2011, the rate was 8.4 percent compared with a rate of 7.5 percent for the state of Alabama and 8.3 percent for the nation, according to the Alabama Department of Industrial Relations. Manufacturing jobs represent a large portion of available employment opportunities, with Honda of Alabama taking the lead and employing approximately 4,500 persons, according to the Talladega County Economic Development Authority. Other major employers include the Alabama Institute for Deaf and Blind, the Talladega County Board of Education, and the Coosa Valley Medical Center.

According to the US Census, the median value of owner-occupied housing units (2006-2010) is \$87,000. New construction is very limited with only 116 building permits being issued in 2010. A community contact conducted during this examination stated that housing prices have declined at least 25 percent over the last two years and that there is a comparatively high level of foreclosures in the assessment area. He also noted that prospective customers are having difficulty obtaining purchase money or refinancing loans primarily because of a strengthening of credit standards related to credit scores. This fact, coupled with high unemployment, has led to a low number of housing sales in the Talladega County.

The city of Sylacauga, where the bank is headquartered, has a population of about 12,000, having remained relatively constant between the 2000 and 2010 Census. It continues to suffer from the economic decline brought on by the 2006 closing of the textile mill around which the city grew. Some manufacturing jobs remain including a number related to the city's historic marble industry and about 200 at the newly established Blue Bell Creameries.

Banking competition within the Talladega County assessment area is high. There are nine financial institutions operating 17 offices in the assessment area, including community, regional, and national institutions. SouthFirst had a deposit market share of 9.37 percent as of June 30, 2011 and was ranked fourth.

The MSA 13820 (Birmingham-Hoover, AL) assessment area is much larger, with a population of about one million and provides many employment opportunities for Talladega County residents. Of the 226 geographies in the assessment area, 16 or 7 percent are low-income, 65 or 29 percent are moderate-income, 85 or 38 percent are middle-income and 60 or 27 percent are upper-income. Low- and moderate-income geographies can be found in the city of Birmingham and in some of the more rural portions of the assessment area. The 2011 HUD Adjusted Median Family Income for the MSA in 2011 was \$62,000, having increased from \$55,500 in 2007.

The MSA suffers from similar economic issues as Talladega County. Unemployment in December 2011 ranged from a high of 8 percent in Bibb County to a low of 6.8 percent in Cullman County. Housing prices have also suffered and values declined. Interestingly, the city of Birmingham (Jefferson County) filed for bankruptcy in November 2011, the largest municipal bankruptcy in US history, causing increased economic concerns for the city.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Lending Test

The bank’s performance under the Lending Test is rated “Satisfactory”.

### Loan-to-Deposit Ratio

SouthFirst’s loan-to-deposit ratio meets the standard for satisfactory performance. The bank’s loan-to-deposit ratio is reasonable given the institution’s size and performance context factors.

The bank’s quarterly average loan-to-deposit ratio since the last CRA examination (20 quarters beginning with the first quarter of 2007) is 93.77 percent, ranging from a high of 105.29 percent in the third quarter of 2009 to a low of 81.80 percent in the third quarter of 2011. The bank’s quarterly average ratio is consistent with the 91.12 percent quarterly ratio of its peer group (based on assets) of thrift institutions operating throughout the United States for the same time period. However, South Bank’s average quarterly ratio is slightly lower than the 105 percent average of quarterly ratios for four peer group thrifts headquartered in the state of Alabama.

### Lending in Assessment Area

The level of lending in the bank’s combined assessment area meets the standard for satisfactory performance. A majority of home loan originations are in the bank’s combined assessment area. Specifically, 74 percent of the number of home loans and 77 percent of the dollar volume of home loans originated during the evaluation period were originated in SouthFirst’s combined assessment area, as depicted below.

Loan Type	Number of Loans				Total	Dollars of Loans				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Purchase	107	70.39	45	29.61	152	14,629	75.15	4,838	24.85	19,467
Home Improvement	67	77.01	20	22.99	87	4,684	82.18	1,016	17.82	5,700
Refinance	98	77.17	29	22.83	127	9,871	76.24	3,077	23.76	12,948
<b>Totals</b>	<b>272</b>	<b>74.32</b>	<b>94</b>	<b>25.68</b>	<b>366</b>	<b>29,184</b>	<b>76.57</b>	<b>8,931</b>	<b>23.43</b>	<b>38,115</b>

Source: Data reported under HMDA for years 2007 through 2011.

### Lending to Borrowers of Different Incomes

Overall, lending to borrowers of different income levels meets the standard for satisfactory performance and reflects reasonable penetration, given performance context and the bank’s business strategy. Given performance context and the bank’s business strategy, borrower distribution of home loans in the full-scope Talladega assessment area shows reasonable penetration. Home purchase, home improvement, and refinance lending each show reasonable penetration of lending to borrowers of different income levels. Consideration was given to the demographics of the assessment area and performance context factors such as economic conditions and performance of all other lenders reporting home loans in the assessment area. Some positive consideration was given to the results of the bank’s business strategy of facilitating home loans through an investor network.

## **Full-Scope Talladega Assessment Area**

### **Home Purchase Loans**

As indicated below, the distribution of home purchase loans to both low- and moderate-income borrowers is lower than the percentage of such families in the assessment area. However, for low-income borrowers, the percentage of the bank’s loans is generally consistent with the percentage of loans originated to low-income borrowers in the assessment area by the aggregate of all lenders reporting home purchase loan originations and purchases in the assessment area (8.32 percent). But, the bank’s lending to moderate-income borrowers is lower than the aggregate (21.19 percent).

As discussed in the Description of the Institution portion of this Report, the bank’s strategy is to facilitate home loans through its investor network. The bank does not report these loans under the HMDA since SouthFirst does not make the credit decision. A review of the bank’s investor loan activity revealed that during the evaluation period, 4.76 percent of 126 investor home purchase loans were to low-income borrowers and 8.73 percent were to moderate-income borrowers.

In addition, it should be noted that according to 2000 Census data, 19 percent of households in the Talladega assessment area are below the poverty level making home ownership financially difficult for most low-income borrowers. Assessment area unemployment rates, consistently higher than statewide figures and reaching as high as 14 percent during the evaluation period, also had a negative impact on home loan lending.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in the Non-MSA Talladega AA</b>				
<b>Borrower Income Level</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>

Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.05	7.32	15.74	2.44	21.93	17.07	41.28	73.17
Home Improvement	21.05	6.00	15.74	10.00	21.93	24.00	41.28	60.00
Refinance	21.05	0.00	15.74	12.73	21.93	38.18	41.28	49.09

*Source: Data reported under HMDA 2007-2011; 2000 U.S. Census data.*

## Home Improvement Loans

The table above indicates the distribution of home improvement loans to low-income borrowers is lower than the percentage of such families in the assessment area. It is also lower than the percentage of loans originated to low-income borrowers in the assessment area by the aggregate of all lenders reporting home improvement loan originations and purchases in the assessment area (10.98 percent). Home improvement lending to moderate-income borrowers is somewhat lower than the percentage of such families in the assessment area but significantly lower than such loans reported by the aggregate of all lenders reporting home improvement loans in the assessment area (25.61 percent). As previously noted, a high poverty level and high unemployment rates in the assessment area may account for limited home improvement borrowing by low-income borrowers. There is no investor lending activity related to home improvement loans.

## Refinance Loans

The bank originated no refinance loans to low-income borrowers. This performance is somewhat consistent with the performance of the aggregate of all lenders (4.09 percent) reporting refinance loans in the assessment area during the evaluation period. However, our review of the bank's investor lending activity showed that 6.08 percent of 148 investor refinance loans were to low-income borrowers. Refinance loans to moderate-income borrowers are somewhat lower than the percentage of such families in the assessment area and somewhat lower than the performance of the aggregate (15.20 percent) of all lenders reporting refinance loans in the assessment area. The percentage of investor loans to moderate-income borrowers (15.54 percent) exceeded the percentage of moderate-income borrowers in the assessment area. Low interest rates, particularly in the later part of the evaluation period; generally account for increased refinance activity across all income categories.

## Limited Scope MSA 13820 (Birmingham-Hoover, AL) Assessment Area

Based on a limited scope review, the bank's lending to borrowers of different income levels in the MSA 13820 assessment area is not inconsistent with the bank's performance in the full-scope Talladega assessment area. Performance regarding home improvement loans was not factored into our conclusion as the number of loans (7) was not significant enough for a meaningful analysis. The following data was used to reach our conclusion.

<b>Table 2 A - Borrower Distribution of Residential Real Estate Loans in MSA 13820 AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.70	7.02	17.49	19.30	20.37	5.26	40.44	68.42
Home Improvement	21.70	0.00	17.49	57.14	20.37	14.29	40.44	28.57
Refinance	21.70	6.06	17.49	6.06	20.37	33.33	40.44	54.55

Source: Data reported under HMDA 2007-2011; 2000 U.S. Census data.

In addition to the data presented in the above table, we also considered the following in reaching our conclusion. The data is presented as a percentage of total loans. Regarding investor loans, for the evaluation period, there were a total of 373 home purchase loans and 122 refinance loans.

	Home Purchase	Home Improvement	Refinance
Aggregate/low-income	13.29	19.46	6.05
Aggregate/moderate- income	30.63	26.29	17.59
Investor/low-income	15.55	0	8.20
Investor/moderate-income	27.35	0	22.95

Source: 2010 aggregate HMDA data; bank reports.

### Geographic Distribution of Loans

Overall, the geographic distribution of loans meets the standard for satisfactory performance and shows a reasonable dispersion of home loans among the various income categories. This conclusion is based on performance in the limited-scope MSA 13280 assessment area, which has a sufficient level of low- and moderate-income geographies for a reasonable analysis. Our analysis is based on all loans reported by the bank under the HMDA. Not every geography in the bank’s assessment areas had lending activity; however, this is consistent with the limited number of branches the bank has in the assessment areas.

As shown below, in the Talladega assessment area there are no low-income geographies and only two moderate-income geographies in the assessment area. Combined, the two moderate-income geographies have only 1,822 owner-occupied housing units, according to the 2000 Census, providing very limited lending opportunities for all lenders operating in the assessment area. Performance in this assessment area did not impact on our overall conclusion.

**Table 3 - Geographic Distribution of Residential Real Estate Loans in Talladega AA**

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	0.00	0.00	3.73	0.00	92.07	100.00	4.20	0.00
Home Improvement	0.00	0.00	3.73	3.33	92.07	95.00	4.20	1.67
Refinance	0.00	0.00	3.73	0.00	92.07	96.77	4.20	3.23

Source: Data reported under HMDA 2007-2011; 2000 U.S. Census data.

## Limited Scope MSA 13820 (Birmingham-Hoover, AL) Assessment Area

Overall, the geographic distribution of loans in the MSA 13820 assessment area meets the standards for satisfactory performance, displaying reasonable dispersion among the various income geographies. The geographic distribution of both home purchase and refinance loans is reasonable. The volume of home improvement loans (7) was not significant for a meaningful analysis.

As depicted below, the percentage of the bank's home purchase loans in low-income geographies is somewhat lower than the percentage of owner-occupied housing units in those geographies and the bank's performance exceeds that of the aggregate of all lenders (.64) reporting home purchase loan originations and purchases in low-income geographies. In moderate-income geographies, the percentage of the bank's loans is near to the percentage of owner-occupied housing units and the bank's performance significantly exceeds that of the aggregate (8.24).

Regarding refinance loans, the bank had no loans in low-income geographies. Such performance is consistent with the percentage of refinance loans reported by the aggregate of all lenders (.46) reporting refinance loans in the assessment area. In moderate-income geographies, the percentage of the bank's loans is somewhat lower than the percentage of owner-occupied housing units in such geographies but the bank's performance significantly exceeds that of the aggregate (7.21).

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	2.24	1.67	22.80	21.67	42.47	23.33	32.49	53.33
Home Improvement	2.24	14.29	22.80	28.57	42.47	42.86	32.49	14.29
Refinance	2.24	0.00	22.80	13.89	42.47	63.89	32.49	22.22

Source: Data reported under HMDA 2007-2011; 2000 U.S. Census data

## **Responses to Complaints**

The bank received no complaints regarding its CRA performance since the last 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