



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

March 19, 2012

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

SOUTHBank, A Federal Savings Bank  
Charter Number: 708854

118 Jefferson Street  
Huntsville, AL 35801-4845

Office of the Comptroller of the Currency

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

<b>State Name: Alabama</b>	<b>Rating: Satisfactory</b>
<b>State Name: Mississippi</b>	<b>Rating: Satisfactory</b>
<b>State Name: Arkansas</b>	<b>Rating: Satisfactory</b>
<b>State Name: Tennessee</b>	<b>Rating: Satisfactory</b>
<b>State Name: North Carolina</b>	<b>Rating: Needs to Improve</b>

Major factors supporting the institution's rating<sup>1</sup> 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.
- Overall, the penetration of loans among borrowers of different income levels is reasonable, given performance context. Performance in the Alabama, Mississippi, Arkansas, and Tennessee assessment areas is reasonable, given performance context. Performance in the North Carolina assessment area reflects poor penetration among borrowers of different income levels because the bank originated so few loans in the assessment area. The bank no longer operates a branch in North Carolina. When the branch was open, it represented approximately five percent of total deposits. The weaker performance in North Carolina does not materially detract from the bank's overall borrower distribution performance.
- Overall, the geographic distribution of loans reflects reasonable dispersion within the assessment area, given performance context. Performance in the Alabama and Arkansas assessment reflects a reasonable dispersion of loans among the various income geographies. Geographic distribution analysis was not conducted in the Mississippi and Tennessee assessment areas because they contained no low- or moderate-income geographies. Performance in the North Carolina assessment area reflects poor dispersion among the various income geographies because the bank originated so few loans in the assessment area. The bank no longer operates a branch in North Carolina. When the branch was open, it represented approximately five percent of total deposits. The weaker performance in North Carolina does not materially detract from the bank's overall geographic distribution performance.

## **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 and consumer loans.

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<sup>1</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and multistate metropolitan areas.

The evaluation period ranged from January 1, 2009 to December 31, 2011. For the purposes of this evaluation, the Bank has six assessment areas ranging over five different states including Alabama, Arkansas, Mississippi, North Carolina, and Tennessee. With the exception of Mississippi, each state had one assessment area and it received a full-scope review. In Mississippi the bank has two assessment areas; non-MSA Alcorn County and non-MSA Lafayette County. Alcorn County received a full-scope review. Of the two Mississippi assessment areas, Alcorn County had 80 percent of deposits, 81 percent of HMDA loans, and 83 percent of consumer loans. The Lafayette County assessment area received a limited-scope review.

In reaching our overall conclusion, the most weight was given to performance in the Mississippi and Alabama assessment areas. The Mississippi assessment represents 36 percent of the bank's total deposits as of June 30, 2011 and 68 percent of consumer loans evaluated for this examination. The Alabama assessment area represents 35 percent of the bank's total deposits as of June 30, 2011 and 73 percent of residential mortgage loans evaluated for this examination. Limited consideration was given to performance in the North Carolina assessment area as the bank closed its branch in that assessment area in August 2011. Because the branch was open for the majority of the evaluation period, it was included in our evaluation.

In the Alabama assessment area performance related to residential mortgage loans received the most consideration. It is the bank's primary business focus in that assessment area. In all other assessment areas most consideration was given to consumer loan performance because consumer loans were the primary business focus in those assessment areas. In addition, many assessment areas did not contain a sufficient number of low- and moderate-income geographies (census tracts) for a meaningful analysis. For this reason, more consideration was given to the results of the borrower distribution portion of the Lending Test in reaching our overall conclusions.

For our examination we relied on Home Mortgage Disclosure Act (HMDA) data submitted by the bank from 2009 to 2011. Prior to our examination we determined that the data was accurate, based on the scope and results of internal compliance reviews and external audits. In addition, we considered aggregate HMDA data in each assessment area for 2010, the most recent year for which the data is available. Consumer loan information was obtained from data maintained by the bank. We tested a sample of that data for each assessment area in order to reach our conclusions.

## **Description of Institution**

SOUTHBANK is an interstate federal savings bank (FSB) headquartered in Corinth, Mississippi (Alcorn County). It is a wholly owned subsidiary of Commonwealth Savingsshares, a Delaware Corporation. A second subsidiary of the Corporation, also named SOUTHBANK, FSB and operating under a different charter, is located in Palm Beach Gardens, Florida. This subsidiary is not part of this examination and its operation did not impact the ability of the subject bank to help meet the credit needs in its assessment areas during the evaluation period. Corinthian Mortgage Corporation (CMC), doing business as Southbanc, is a subsidiary of SOUTHBANK, FSB, but it was not operative during the evaluation period and had no impact on the examination.

As of the date of this examination, SOUTHBank operates 12 branch offices. Four offices are located in both Alabama and Mississippi. There are three offices in Arkansas and one office in Tennessee. Until August 2011 the bank operated an office in North Carolina. Because it was open for the majority of the evaluation period, it is included in our evaluation and for the purposes of this examination the bank is considered to have 13 branches. No other branches were opened or closed during the evaluation period. In addition, the bank operates a loan production office in Raleigh, North Carolina that focuses on residential mortgage lending. However, the CRA does not consider such a facility a branch office.

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. The majority of such loans are sold on the secondary market. However, due to economic conditions in the bank's more rural assessment areas, consumer loans represent the majority of lending activity during the evaluation period.

As of December 31, 2011 the bank had total assets of \$242MM and total deposits of \$184MM. Total loans (net of unearned income and allowance), which represent 45 percent of total assets, equaled \$108MM and consisted of 95 percent mortgage loans, 3 percent consumer loans, and 2 percent commercial 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 local economies many of which were already weak and thus negatively impacted the bank's ability to originate new loans and borrower's ability to repay existing loans. Since the last CRA examination, total assets declined 17 percent from \$292MM. With the exception of the third quarter of 2011, SOUTHBank has not been profitable during the evaluation period. These factors were considered as part of our evaluation.

At its last CRA examination, dated September 22, 2008 and conducted by the Office of Thrift Supervision under Intermediate Small Bank (ISB) examination procedures, the bank was rated satisfactory.

## **Description of Assessment Areas**

For the purposes of this examination, SOUTHBank has six assessment areas. Each is generally described here. A more detailed description, including demographic information, can be found in the appropriate sections of this report.

In Alabama, the bank has designated all of Metropolitan Statistical Area (MSA) 26620 (Huntsville, AL) as its assessment area. In terms of population, it is the largest assessment area and represents the most opportunities for residential mortgage lending of any of the assessment areas.

In Mississippi, SOUTHBank has designated all of non-MSA Alcorn County and non-MSA Lafayette County as its assessment area. In Arkansas, the bank has designated all of non-MSA Mississippi County for its assessment area and in Tennessee it has designated all of non-MSA McNairy County. These assessment areas are generally rural in nature and all are experiencing

weak economic conditions, limiting the bank's opportunities for residential mortgage lending. Here, consumer lending has become the primary lending product.

In North Carolina, the assessment area consists of all of Durham County, which is part of MSA 20500 (Durham-Chapel Hill, NC). As in Alabama, this assessment area is more urban in nature and presents residential lending opportunities.

SOUTHBank's assessment areas meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income areas.

## **Conclusions with Respect to Performance Criteria**

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

SOUTHBank'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, capacity to lend, and other performance context factors related to lending opportunities and economic conditions in the bank's assessment areas.

The bank's quarterly average loan-to-deposit ratio since the last CRA examination (14 quarters beginning with the third quarter of 2008) is 67.24 percent, ranging from a high of 83.26 percent in the third quarter of 2008 to a low of 56.30 percent in the first quarter of 2011. The bank's quarterly average ratio is somewhat lower than the 88.97 percent quarterly ratio of similarly sized thrift institutions operating throughout the United States for the same time period. However, SOUTHBank's average quarterly ratio is lower than the 110.79 percent average of quarterly ratios for four similarly sized 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, 81 percent of the number of loans and 63 percent of the dollar volume of loans originated during the evaluation period were originated in SOUTHBank's combined assessment area, as depicted below.

Out of assessment area home loans are generally due to originations from the bank's loan production office in North Carolina. That office largely serves both Durham and adjacent Wake Counties. However, the bank has no branch banking office in Wake County and it therefore cannot be considered part of the bank's assessment area.

It should also be noted that while the level of consumer loans had a significant impact on the percentage of loans in the assessment area by number, they did not have a similar impact on the percentage of dollar volume of loans in the assessment area. This occurred because the average dollar amount of home purchase loans (\$138,620) significantly exceeds the average dollar amount of consumer loans (\$14,989). Particularly in its non-MSA assessment areas, the bank makes many small dollar loans, beginning at \$1,000.

<b>Table 1 - Lending in Combined Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	206	76.87	62	23.13	268	28,250	59.20	19,470	40.80	47,720
Home Improvement	60	93.75	4	6.25	64	2,163	92.59	173	7.41	2,336
Refinance	470	71.10	191	28.90	661	71,611	61.26	45,278	38.74	116,889
<b>Total Home Loans</b>	<b>736</b>	<b>74.12</b>	<b>257</b>	<b>25.88</b>	<b>993</b>	<b>102,024</b>	<b>61.11</b>	<b>64,921</b>	<b>38.89</b>	<b>166,945</b>
<b>Consumer Loans</b>	<b>731</b>	<b>89.58</b>	<b>85</b>	<b>10.41</b>	<b>816</b>	<b>10,957</b>	<b>86.43</b>	<b>1,720</b>	<b>13.57</b>	<b>12,677</b>
<b>All Loans</b>	<b>1,467</b>	<b>81.09</b>	<b>342</b>	<b>18.91</b>	<b>1,809</b>	<b>112,981</b>	<b>62.90</b>	<b>66,641</b>	<b>37.10</b>	<b>179,622</b>

*Source: Data reported under HMDA for years 2009 through 2011; consumer loan data supplied by bank.*

## **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.

## State Rating

### State of Alabama

### CRA Rating for Alabama: Satisfactory

Major factors supporting the rating<sup>2</sup> include:

- The penetration of loans among borrowers of different income levels is reasonable, given performance context.
- The geographic distribution of loans reflects reasonable dispersion within the assessment area, given performance context.

### Description of Assessment Area

SOUTHBANK has designated all of MSA 26620 (Huntsville, AL) as its assessment area in Alabama. The MSA consists of all of Madison and Limestone Counties. The bank operates four of its 13 offices in this assessment area, three in Huntsville and one in Madison. As of June 30, 2011, the bank's deposits in the assessment area totaled \$66MM or approximately 35 percent of the bank's total deposits. In terms of HMDA loans, this is the bank's most important assessment area. For the evaluation period, 537 HMDA loans were originated in this assessment area representing 73 percent of all HMDA loans evaluated for this examination. Consumer lending is less important in the MSA assessment area, representing only eight percent (59 loans) of all consumer loans originated during the evaluation period.

Within the assessment area, there are 87 geographies (census tracts) of which six or 6.90 percent are low-income and 24 or 27.59 percent are moderate-income. All of the low-income geographies and 19 of the moderate-income geographies are located in Madison County, primarily in the northwest portion of the city of Huntsville. Of the 94,234 families in the assessment area, approximately 21 percent are low-income and 18 percent are moderate-income. Of all households in the assessment area, 11.27 percent are below the poverty level, according to the 2000 Census.

Based on the 2000 Census the population of the MSA was 342,000, but 2010 population figures show an increase of about 22 percent to 418,000. Approximately 80 percent of the population resides in Madison County. Huntsville is the primary city with a current population of approximately 180 thousand. The 2000 Census reports a total of 95,899 owner-occupied housing units in the MSA, but the increase in population has spurred increased housing construction with some 2,000 building permits being issued in Madison County alone in 2010, according to the Census Bureau. A community contact made for this examination noted that while there is some supply of housing affordable to low- and moderate-income borrowers, they

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cannot now qualify for mortgage credit because credit standards have risen. There is a need for special mortgage programs for such borrowers.

The economy in the assessment area is good. The main economic influence is derived from aerospace and military technology, mainly from the Redstone Arsenal, Cummings Research Park, and NASA's Marshall Space Flight Center. Unemployment is relatively low given the state of the national economy. According to the Bureau of Labor Statistics, the December 2011 unemployment rate was 6.4 percent compared with statewide rate of 7.5 percent and a national rate of 8.3 percent. The median value of owner-occupied housing (2006-2010) is \$155,600, based on Census Bureau data. The HUD adjusted median family income for the MSA assessment area in 2011 was \$70,800 having increased from \$67,500 in 2009.

There is strong banking competition in the assessment area with 26 different institutions operating 115 banking offices in the MSA. Based on data from the Federal Deposit Insurance Corporation, as of June 30, 2011, SOUTHBank is ranked 17<sup>th</sup>, with a .99 percent deposit market share. The market is dominated by Regions Bank and BBVA Compass Bank which combined represents a 39 percent deposit market share. In addition, credit unions are important competitors in the assessment area.

Of the 537 home loans reported under the HMDA for the evaluation period, 164 represent home purchase loans, 18 represent home improvement loans, and 355 represent refinance loans. Refinance lending activity had the greatest impact on our overall conclusion regarding home loans.

## **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.** The level of home loans and consumer loans to borrowers of different income levels reflects reasonable penetration. Home purchase and refinance lending each show reasonable penetration of lending to borrowers of different income levels. The number of home improvement loans was not sufficient for a meaningful analysis. The assessment area's 11.27 percent poverty rate makes it difficult for low-income families to borrow and limits opportunities to lend to such borrowers.

### **Home Loans**

#### **Home Purchase Loans**

As indicated below, the distribution of home purchase loans to low-income borrowers is somewhat lower than the percentage of such families in the assessment area. However, for moderate-income borrowers, the percentage of the bank's loans exceeds the percentage of moderate-income families in the assessment area. For loans to both low- and moderate-income borrowers the percentage of the bank's loans is somewhat lower than the performance of the aggregate of all lenders reporting home purchase loan originations and purchases in the assessment area. The aggregate reported 17.25 percent of home purchase loans to low-income borrowers and 25.58 percent to moderate-income borrowers.

<b>Table 2A - Borrower Distribution of Residential Real Estate Loans in the MSA 26620 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	21.15	12.06	17.80	18.44	21.00	19.15	40.05	50.35
Home Improvement	21.15	0.00	17.80	25.00	21.00	50.00	40.05	25.00
Refinance	21.15	6.52	17.80	13.48	21.00	20.00	40.05	60.00

Source: Data reported under HMDA 2009-2011; 2000 U.S. Census data.

### Home Improvement Loans

The bank reported only 18 home improvement loans in the assessment area. This amount is not significant to our overall findings however we did note that although no home improvement loans were to low-income borrowers, the percentage of home improvement loans to moderate-income borrowers exceeded the percentage of such families in the assessment area.

### Refinance Loans

Refinance loans to low-income borrowers was lower than the percentage of such families in the assessment area, but near to the percentage of loans to low-income borrowers reported by the aggregate (7.05 percent). Performance by the aggregate indicates difficulty in lending to low-income borrowers, as previously discussed. The percentage of the bank's loans to moderate-income borrowers is somewhat lower than the percentage of moderate-income families in the assessment area and the level reported by the aggregate (16.80 percent).

### Consumer Loans

During the evaluation period the percentage of consumer loans to low-income borrowers was lower than the percentage of low-income households in the assessment area. However, the level of consumer loans to moderate-income households exceeded the percentage of such households in the assessment area. As previously discussed, 11.27 percent of households in the assessment area are below the poverty level making it difficult to lend to many low-income households.

<b>Table 2B - Borrower Distribution of Consumer Loans in MSA 26620 AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Consumer Loans	23.76	10.00	16.01	30.00	18.51	20.00	41.73	35.00

Source: Sample of 20 loans originated in assessment area (one had no income reported); 2000 U.S. Census data.

## Geographic Distribution of Loans

**Overall, the geographic distribution of loans meets the standard for satisfactory performance and shows a reasonable dispersion of loans among the various income categories, given performance context.** The dispersion of home loans is reasonable with both home purchase and refinance lending showing reasonable dispersion among the various income geographies. The number of home improvement loans was not sufficient for a meaningful analysis. The dispersion of consumer loans is poor and reflects a less than reasonable geographic dispersion.

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 and level of competition in the assessment area.

### Home Loans

#### Home Purchase

As shown in the table below, the percentage of the bank's loans in both low- and moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units in those geographies. However, the bank's performance exceeds that of the aggregate, which reported .26 percent of loans in low-income geographies and 11.45 percent in moderate-income geographies.

#### Home Improvement

The volume of home improvement loans in the assessment area is not significant to our overall findings however we did see that although no home improvement loans were made in low-income geographies, the percentage of home improvement loans in moderate-income geographies exceeded the percentage of owner-occupied housing units located those geographies.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.20	0.16	20.78	12.20	47.79	47.56	30.24	39.63
Home Improvement	1.20	0.00	20.78	38.89	47.79	33.33	30.24	27.78
Refinance	1.20	0.56	20.78	13.24	47.79	42.25	30.24	43.94

*Source: Data reported under HMDA 2009-2011; 2000 U.S. Census data.*

## Refinance Loans

The table above shows that the percentage of refinance loans in low-income geographies is lower than the percentage of owner-occupied housing units in those geographies however the bank’s performance exceeds that of the aggregate (.20 percent) of all lenders reporting refinance loans in low-income geographies. In moderate-income geographies, the percentage of the bank’s loans is somewhat lower than the percentage of owner-occupied housing units in moderate-income geographies, but it exceeds the performance of the aggregate (9.36 percent).

## Consumer Loans

As shown below, the bank did not originate any consumer loans to households in low-income geographies. The level of consumer loans to households in moderate-income geographies is lower than the percentage of households residing in moderate-income geographies.

Table 3B - Geographic Distribution of Consumer Loans in MSA 26620 AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	3.90	0.00	26.60	10.00	43.53	50.00	25.97	40.00

*Source: Sample of 20 consumer loan originations; 2000 U.S. Census data*

## Responses to Complaints

The bank did not receive any complaints.

## State Rating

### State of Mississippi

#### CRA Rating for Mississippi: Satisfactory

Major factors supporting the rating<sup>3</sup> include:

- The penetration of loans among borrowers of different income levels is reasonable, given performance context.

#### Description of Assessment Area(s)

SOUTHBank has two assessment areas in the state of Mississippi. They include non-MSA Alcorn County and non-MSA Lafayette County. In the combined Mississippi assessment area the bank operates four of its 13 offices, two in Alcorn County (Corinth) and two in Lafayette County (Oxford). As of June 30, 2011, the bank's deposits in the combined Mississippi assessment area totaled \$67MM or approximately 36 percent of the bank's total deposits. In terms of HMDA loans, this is the bank's second most important assessment area, but consumer loans represent the majority of the lending in Mississippi. For the evaluation period, 165 HMDA loans were originated in Mississippi representing 22 percent of all HMDA loans evaluated for this examination and 495 consumer loans were originated representing 68 percent of all consumer loans evaluated.

Of the two assessment areas, Alcorn County is the most important and it received a full-scope review. As of June 30, 2011, the Alcorn County assessment area had \$57MM in deposits or 80 percent of the bank's deposits in Mississippi. Also, of the 165 HMDA loans originated in Mississippi, 133 or 81 percent were originated in Alcorn County. Of the 495 consumer loans originated in Mississippi, 412 or 83 percent of consumer loans were originated in Alcorn County. The Lafayette County assessment area received a limited-scope review.

Of the seven geographies in the full-scope Alcorn County assessment area none are low- or moderate-income geographies. Of the 9,907 families in the assessment area, approximately 20 percent are low-income and 15 percent are moderate-income. Of all households in the assessment area, 20 percent are below the poverty level, according to the 2000 Census. The 2000 Census puts the population of Alcorn County at approximately 35 thousand, but 2010 population figures show an increase to about 37 thousand.

The economy of the full-scope Alcorn County assessment area is generally weak, but according to a community contact made for this examination, not as weak as other portions of the state.

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<sup>3</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and multistate metropolitan areas.

However, unemployment is high. According to the Bureau of Labor Statistics, the December 2011 unemployment rate was 10.9 percent compared with a statewide rate of 9.9 percent and a national rate of 8.3 percent. There were only four states in the United States with higher unemployment rates than Mississippi in December 2011.

According to the Census Bureau, the median value of owner-occupied housing (2006-2010) was \$85,700. The Census Bureau also reported that only 13 building permits were issued in Alcorn County in 2010. The 2011 HUD adjusted median family income for all non-MSA counties in Mississippi was \$41,600. The figure was the same for 2010 and 2009. It is the lowest non-MSA county income level in the United States. This data indicates difficulty for banks in lending to low-income borrowers. Our community contact noted that requests for housing assistance in the county have increased significantly and that there has been an increase in the homeless population. The contact further noted that quality affordable housing is needed.

Banking is competitive in the full-scope Alcorn County assessment area. There are eight different institutions operating 16 banking offices in the County, in addition to active credit unions. According to data from the Federal Deposit Insurance Corporation, as of June 30, 2011, SOUTHBank is ranked 5<sup>th</sup> among banks with an 8.61 percent deposit market share. The market is dominated by Trustmark and Bancorpsouth Bank which combined represents a 49 percent deposit market share.

Because of the volume of lending, the evaluation of consumer loans had the greatest impact on our overall conclusion. Of the 133 home loans reported in Alcorn County under the HMDA for the evaluation period, 32 represent home purchase loans, 27 represent home improvement loans, and 74 represent refinance loans. Therefore, refinance lending activity had the greatest impact on our conclusion regarding home loans

The limited-scope Lafayette County assessment area has a population of 39,000. It is home to the University of Mississippi (Ole Miss). As with Alcorn County, there are no low- or moderate-income geographies. According to the 2000 Census 23 percent of households are below the poverty level and two of the middle-income geographies are considered economically distressed. In this assessment area, the bank originated 32 home loans and 83 consumer loans.

## **Lending to Borrowers of Different Incomes**

### **Conclusion for full-scope Alcorn County Assessment Area**

**Overall, lending to borrowers of different income levels meets the standard for satisfactory performance and reflects reasonable penetration, given performance context.** The level of home loans to borrowers of different income levels reflects more than reasonable penetration, based on the strong performance in refinance lending. Home purchase and home improvement lending each show reasonable penetration of lending to borrowers of different income levels. Consumer lending, which represents the greatest volume of lending under analysis, reflects reasonable penetration among borrowers of different income levels. The assessment area's 19.60 percent poverty rate makes it difficult for low-income families to borrow and limits the bank's opportunities to lend to such borrowers.

## Home Loans

### Home Purchase Loans

As indicated below, the distribution of home purchase loans to low-income borrowers is lower than the percentage of such families in the assessment area. For moderate-income borrowers, the percentage of the bank’s loans is somewhat lower than the percentage of moderate-income families in the assessment area. For loans to both low- and moderate-income borrowers the percentage of the bank’s loans is somewhat lower than the performance of the aggregate of all lenders reporting home purchase loan originations and purchases in the assessment area. The aggregate reported 10.47 percent of home purchase loans to low-income borrowers and 17.80 percent to moderate-income borrowers.

<b>Table 4A - Borrower Distribution of Residential Real Estate Loans in Alcorn County 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	19.90	6.25	14.99	12.50	20.05	34.38	45.07	46.88
Home Improvement	19.90	4.35	14.99	26.09	20.05	30.43	45.07	39.13
Refinance	19.90	17.65	14.99	14.71	20.05	20.59	45.07	47.06

*Source: Data reported under HMDA 2009-2011; 2000 U.S. Census data.*

### Home Improvement Loans

The percentage of the bank’s home improvement loans to low-income borrowers is lower than the percentage of such families in the assessment area and lower than the percentage of home improvement loans to low-income families reported by the aggregate (14.08) of all lenders reporting home improvement loans in the assessment area. For moderate-income borrowers, the percentage of the bank’s loans exceeded the percentage of moderate-income families in the assessment area and it also exceeded the percentage of such loans reported by the aggregate (22.54 percent).

### Refinance Loans

The percentage of refinance loans to low-income borrowers was near to the percentage of such families in the assessment area and it significantly exceeded the percentage of loans to low-income borrowers reported by the aggregate (4.78 percent). The percentage of the bank’s loans to moderate-income borrowers is almost equal to the percentage of moderate-income families in the assessment area and it exceeds the level reported by the aggregate (10.77 percent)

### Consumer Loans

During the evaluation period the percentage of consumer loans to low-income borrowers exceeded the percentage of low-income households in the assessment area. The level of

consumer loans to moderate-income households is somewhat lower than the percentage of such households in the assessment area.

<b>Table 4B - Borrower Distribution of Consumer Loans in Alcorn County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Consumer Loans	25.72	30.00	14.02	10.00	15.98	20.00	44.29	35.00

Source: Sample of 20 loans originated in assessment area (one had no income reported); 2000 U.S. Census data.

### Conclusion for limited-scope Lafayette County Assessment Area

Based on a limited scope review, the bank’s performance on the Borrower Distribution portion of the Small Bank Lending Test in the limited-scope Lafayette County assessment area is not inconsistent with the bank’s borrower distribution performance in the full-scope Alcorn assessment area.

The following data was used to reach our conclusion:

<b>Table 4C - Borrower Distribution of Residential Real Estate Loans in Lafayette County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	15.45	0.00	14.16	0.00	17.54	0.00	52.85	100.00
Home Improvement	15.45	0.00	14.16	12.50	17.54	25.00	52.85	62.50
Refinance	15.45	0.00	14.16	6.67	17.54	33.33	52.85	60.00

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

<b>Table 4D - Borrower Distribution of Consumer Loans in Lafayette County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Consumer Loans	26.29	5.00	14.89	30.00	14.50	15.00	44.33	45.00

Source: Sample of 20 loans originated in assessment area (one had no income reported); 2000 U.S. Census data.

In addition, we considered the following data related to the lending of the aggregate of all lenders reporting home loans in the limited-scope Lafayette County assessment area.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	Aggregate Lending						
Home Purchase	15.45	1.66	14.16	7.05	17.54	19.71	52.85	71.58
Home Improvement	15.45	2.13	14.16	6.38	17.54	12.77	52.85	78.72
Refinance	15.45	.61	14.16	5.84	17.54	11.07	52.85	82.48

### Geographic Distribution of Loans

Neither the full-scope or limited-scope assessment area contained low-or moderate-income geographies , therefore geographic distribution analysis was not conducted.

### Responses to Complaints

The bank did not receive any complaints.

## State Rating

### State of Arkansas

### CRA Rating for Arkansas: Satisfactory

Major factors supporting the rating<sup>4</sup> include:

- The penetration of loans among borrowers of different income levels is reasonable, given performance context.
- The geographic distribution of loans reflects reasonable dispersion within the assessment area, given performance context.

### Description of Assessment Area(s)

SOUTHBANK's assessment area in Arkansas is all of non-MSA Mississippi County. The bank operates three offices in this assessment area, one in Blytheville, one in Manila, and one in Osceola. During the evaluation period, a limited drive-through teller facility, not considered a branch office, was closed in Blytheville. As of June 30, 2011, the bank's deposits in the assessment area totaled \$42MM or approximately 22 percent of the bank's total deposits. Consumer lending is the primary business focus in this assessment area. The bank originated only three HMDA loans during the evaluation period therefore no analysis of HMDA lending was conducted. Regarding consumer loans, 57 such loans were originated during the evaluation period. They represent approximately eight percent of all consumer loans originated by the bank during the evaluation period.

Within the assessment area, there are 13 geographies (census tracts). None are low-income, four or 31 percent are moderate-income, six or 46 percent are middle-income and three or 23 percent are upper-income. All of the middle-income geographies have been classified as economically distressed by the federal regulatory agencies indicating that there are substantial barriers to lending in this assessment area. In order to be classified as economically distressed a tract must meet one or more of the following criteria: 1) an unemployment rate of 1.5 percent times the national average, 2) a poverty rate of 20 percent or more, and 3) a population loss of 10 percent or more between the previous and most recent decennial census or net migration loss of five percent or more over the five year period preceding the most recent census. These middle-income geographies have been classified as economically distressed for the entire evaluation period. Of the bank's three branches, two are located in moderate-income geographies and one is located in an economically distressed middle-income geography.

Based on the 2000 Census the population of Mississippi County was 52,000, but 2010 population figures show a decrease in population to 46,000 or a decline of almost 11 percent as people leave

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<sup>4</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and multistate metropolitan areas.

to seek employment opportunities. The population decline has led to an oversupply of housing for sale and a decline in the median price which reached approximately \$58,000 at the end of 2011. According to the US Census, only 35 building permits were issued in Mississippi County in 2010. This situation explains the lack of HMDA reportable lending in the assessment area. Also negatively impacting lending in general is the fact that 23 percent of households are below the poverty level, according to the 2000 Census. More recent Census data (2006-2010) indicates the poverty rate has reached 25.5 percent.

The economy in the assessment area is obviously weak and has never recovered from major job losses resulting from the closing of a military installation in the early 1990s as well as the historical loss of the steel industry and declines in agriculture. According to the Bureau of Labor Statistics, the unemployment rate in Mississippi County was 9.4 percent at the end of December 2011. This compares with a statewide rate of 7.7 percent and a national rate of 8.3 percent. The HUD adjusted median family income for all non-MSA counties in the state of Arkansas in 2011 was \$43,300 having declined from \$43,500 in 2009.

There are several banks active in the assessment area. According to data from the Federal Deposit Insurance Corporation, there are eight different banking institutions operating 23 banking offices in Mississippi County. As of June 30, 2011, SOUTHBank as ranked 5<sup>th</sup>, with a 7.28 percent deposit market share. The market is dominated by Southern Bancorp Bank and Farmers Bank & Trust Company which combined represent a 63 percent deposit market share. Credit unions are also major competitors in the assessment area.

A community contact made for this examination noted that many people in the assessment area do not have banking relationships and use non-bank lenders for their credit needs. The contact noted that poor credit history is the primary reason potential borrowers cannot obtain bank credit.

## **Lending to Borrowers of Different Incomes**

### **Consumer Loans**

#### **Borrower**

**Lending to borrowers of different income levels meets the standard for satisfactory performance and reflects reasonable penetration, given performance context.** The distribution of consumer loans to borrowers of different income levels is reasonable, given performance context. This conclusion is based on a limited sample of available loan files however, the majority of the bank's consumer loans are CD secured and income information is not always obtained for these types of loans.

Our review of all consumer loans revealed that the average consumer loan for the evaluation period was \$10,509. We also noted that of the total of 57 loans, 20 or 35 percent were for \$3,000 or less, an amount that might typically meet the credit needs of low- or moderate-income borrowers.

According to our sample, the percent of consumer loans to low-income borrowers exceeded the percentage of low-income households in the assessment area. The percentage of consumer loans to moderate-income borrowers was somewhat lower than the percentage of moderate-income households in the assessment area.

<b>Table 5A - Borrower Distribution of Consumer Loans in Mississippi County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Consumer Loans	27.09	30.00	15.60	10.00	17.15	10.00	40.16	10.00

*Source: Sample of 10 loans originated in assessment area (two had no income reported); 2000 U.S. Census data.*

### Geographic Distribution of Loans

The geographic distribution of loans meets the standard for satisfactory performance and shows a reasonable dispersion of loans among the various income categories, given performance context.

The geographic distribution of consumer loans is reasonable, given performance context. However, this conclusion is based on a limited sample of available loan files. There are no low-income geographies in the assessment, but the percentage of consumer loans in moderate-income geographies is equivalent to the percentage of households residing in moderate-income geographies.

<b>Table 5B - Geographic Distribution of Consumer Loans in Mississippi County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Consumer Loans	0.00	0.00	30.59	30.00	41.84	20.00	27.57	50.00

*Source: Sample of 20 consumer loan originations; 2000 U.S. Census data*

### Responses to Complaints

The bank did not receive any complaints.]

## State Rating

### State of Tennessee

#### CRA Rating for Tennessee: Satisfactory

Major factors supporting the rating<sup>5</sup> include:

- The penetration of loans among borrowers of different income levels is reasonable, given performance context.

#### Description of Assessment Area(s)

SOUTHBank's assessment area in Tennessee is all of non-MSA McNairy County. The bank operates one office in the assessment area. It is located in the city of Selmer. As of June 30, 2011, the bank's deposits in the assessment area totaled \$3.4MM or approximately 2 percent of the bank's total deposits. Consumer lending is the primary business focus in this assessment area. While the bank originated 20 HMDA loans during the evaluation period, it originated 120 consumer loans. They represent approximately 16 percent of all consumer loans originated by the bank during the evaluation period.

Within the assessment area, there are seven geographies (census tracts), all of which are considered middle-income. Of those geographies, all have been classified as economically distressed by the federal regulatory agencies indicating that there are substantial barriers to lending in this assessment area. In order to be classified as economically distressed a tract must meet one or more of the following criteria: 1) an unemployment rate of 1.5 percent times the national average, 2) a poverty rate of 20 percent or more, and 3) a population loss of 10 percent or more between the previous and most recent decennial census or net migration loss of five percent or more over the five year period preceding the most recent census. These middle-income geographies have been classified as economically distressed for the entire evaluation period. The bank's office is located in one of the economically distressed geographies.

Based on the 2000 Census the population of McNairy County was 25,000, but 2010 population figures shows a slight increase to 26,000. According to the US Census, the median value of owner-occupied housing units (2006-2010) is \$84,200. The 2000 Census shows that 18 per cent of households in the county are below the poverty level, but more recent Census data (2006-2010) indicates the figure has increased to 21 percent.

The economy in the assessment area is obviously weak. According to the Bureau of Labor Statistics, the unemployment rate in McNairy County was 9.4 percent at the end of December 2011. This compares with a statewide rate of 8.1 percent and a national rate of 8.3 percent. The

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<sup>5</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and multistate metropolitan areas.

county is rural in nature and agriculture, primarily cotton, corn, and soybeans, play an important role in the local economy. The largest employers are Selmer Apparel and General Electric, which has an appliance manufacturing plant in the county. This plant employs several hundred people, but has transferred some jobs to other areas and laid-off some employees. The HUD adjusted median family income for all non-MSA counties in the state of Tennessee in 2011 was \$45,400 having declined from \$46,300 in 2009.

There are several banks active in the assessment area. According to data from the Federal Deposit Insurance Corporation, there are nine different banking institutions operating 14 banking offices in McNairy County. As of June 30, 2011, SOUTHBank as ranked last, with a 1.06 percent deposit market share. The market is dominated by Community Bank South and Regions Bank which combined represents a 40 percent deposit market share. Credit unions are also very active in this assessment area.

As in other assessment areas, the community contact made for this examination noted that there are some opportunities to lend to low- and moderate-income home buyers, but many of these potential borrowers have poor or no credit history and cannot qualify for mortgage credit. The contact suggested that special products should again be available for low- and moderate-income homebuyers.

## **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.** The level of home loans to borrowers of different income levels reflects is reasonable penetration given performance context, but this conclusion is based on a small number of loans. Consumer lending, which represents the greatest volume of lending under analysis, reflects reasonable penetration among borrowers of different income levels, given performance context.

### **Home Loans**

As shown in the table below, the bank did not have a sufficient volume of HMDA loans for a meaningful analysis. However, we did note that both of the home purchase loans were to moderate-income borrowers and none of the home improvement loans were to either low- or moderate-income borrowers. Of the 14 refinance loans, the percentage of loans to low-income borrowers is lower than the percentage of low-income families in the assessment area, but the percentage of loans to moderate-income borrowers exceeds the percentage of such families in the assessment area.

<b>Table 6A - Borrower Distribution of Residential Real Estate Loans in McNairy County 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	19.17	0.00	18.34	100.00	24.62	0.00	37.88	0.00
Home Improvement	19.17	0.00	18.34	0.00	24.62	0.00	37.88	0.00
Refinance	19.17	7.69	18.34	23.08	24.62	7.69	37.88	61.54

Source: Data reported under HMDA 2009-2011; 2000 U.S. Census data.

### Consumer Loans

During the evaluation period the percentage of consumer loans to low-income borrowers was significantly lower than the percentage of low-income households in the assessment area. However, the level of consumer loans to moderate-income households significantly exceeds the percentage of such households in the assessment area.

<b>Table 6B - Borrower Distribution of Consumer Loans in McNairy County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Consumer Loans	26.84	5.00	14.78	50.00	19.78	20.00	38.54	25.00

Source: Sample of 20 loans originated in assessment area ; 2000 U.S. Census data.

### Geographic Distribution of Loans

There are no low- or moderate-income geographies in the assessment therefore an analysis was not conducted.

### Responses to Complaints

The bank did not receive any complaints.

## State Rating

### State of North Carolina

### CRA Rating for North Carolina: Needs Improvement

Major factors supporting the rating<sup>6</sup> include:

- The penetration of loans among borrowers of different income levels is poor.
- The geographic distribution of loans reflects poor dispersion within the assessment area.

### Description of Assessment Area

Prior to the August 2011 closing of its branch office, SOUTHBANK operated one branch in Durham County North Carolina. Because this office was open for a substantial portion of the evaluation period, it is included in our examination. The bank continues to operate a loan production office in Raleigh, North Carolina. That office originates home mortgage loans within Durham County as well as neighboring Wake County. Because the loan production office is not considered a bank branch, it or any of the areas it serves outside Durham County, could not be considered part of the bank's assessment area in North Carolina.

As of June 30, 2011, the bank's deposits in the Durham County assessment area, which is part of MSA 20500 (Durham-Chapel Hill, NC) totaled \$9.4MM or approximately 5 percent of the bank's total deposits. Consumer loans were not made at the Durham branch because there was no loan officer at that location. Home mortgage loan applications were forwarded to the loan production office for processing. During the evaluation period, the bank originated 11 HMDA loans. Of those loans, two were home purchase loans, two were home improvement loans, and seven were refinance loans.

Within the assessment area, there are 53 geographies (census tracts), 11 or 21 percent are low-income, 11 or 21 percent are moderate-income, 17 or 32 percent are middle-income and 12 or 23 percent are upper-income. Two geographies have no income designation. The assessment area contains approximately 95 thousand housing units of which approximately 48 thousand or 51 percent are owner-occupied, providing home loan lending opportunities. There are 89,000 households in the assessment area, providing consumer loan opportunities. Based on the 2000 Census the population of Durham County was 223,000.

The economy in the assessment area is relatively good. According to the Bureau of Labor Statistics, the unemployment rate in Durham County was 7.5 percent at the end of December 2011. This compares with a statewide rate of 10.2 percent and a national rate of 8.3 percent. The HUD adjusted median family income for all of MSA 20500 (Durham-Chapel Hill, NC) in

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<sup>6</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and multistate metropolitan areas.

2011 was \$67,800 having increased from \$65,500 in 2009. Of the 55,000 families in the assessment area, 22 percent are low-income, 17 percent are moderate-income, 21 percent are middle-income and 40 percent are upper-income. Based on 2000 Census figures, 12.80 percent of households are below the poverty level.

There is substantial banking competition in the Durham County assessment area including the largest banks in the county, as well as regional and local banks. According to data from the Federal Deposit Insurance Corporation, there are 17 different banking institutions operating 70 banking offices in Durham County. As of June 30, 2011, SOUTHBank as ranked 15<sup>th</sup> with a .18 percent deposit market share. The market is dominated by Square 1 Bank and Sun Trust which combined represents a 48 percent deposit market share.

### Lending to Borrowers of Different Incomes

**Overall, lending to borrowers of different income levels does not meet the standard for satisfactory performance and reflects poor penetration, because of a very low level of lending in the assessment area.** Lending opportunities exist in the assessment area, but the bank did not take sufficient advantage of these opportunities for either home loans or consumer loans. During the three year evaluation period, 11 HMDA loans were originated and no consumer loans. Of the HMDA loans, two were home purchase loans, two were home improvement loans, and seven were refinance loans.

Table 7A - Borrower Distribution of Residential Real Estate Loans in the Durham AA								
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	22.00	0.00	17.03	00.00	21.11	0.00	39.87	100.00
Home Improvement	22.00	50.00	17.03	0.00	21.11	0.00	39.87	50.00
Refinance	22.00	0.00	17.03	14.29	21.11	42.86	39.87	42.86

*Source: Data reported under HMDA 2009-2011; 2000 U.S. Census data.*

### Geographic Distribution of Loans

**Overall, the geographic distribution of loans does not meet the standard for satisfactory performance and shows poor dispersion of loans among the various income categories because of a very low level of lending in the assessment area.** Lending opportunities exist in the assessment area, but the bank did not take sufficient advantage of these opportunities for either home loans or consumer loans. During the three year evaluation period, 11 HMDA loans were originated and no consumer loans. No meaningful conclusions can be reached from such a small number of loans.

## **Responses to Complaints**

The bank received no complaints.