



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 19, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Second FS&LA of Philadelphia
Charter Number 703776

1727 Chestnut Street
Philadelphia, PA 19103-4115

Office of the Comptroller of the Currency

ADC-PHILADELPHIA (8104) Field Office
1150 Northbrook Drive, Suite 303
Trevese, PA 19053

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 Substantial Noncompliance.

- A substantial majority of the home refinance mortgages were originated outside of the institution's assessment area (AA);
- The institution's quarterly average loan-to-deposit (LTD) ratio is reasonable, given the association's size, financial condition, assessment area credit needs, and relevant competitive factors;
- The institution's record of lending to borrowers of different incomes reflects very poor penetration throughout the AA;
- The geographic distribution of loans reflects very poor dispersion throughout the AA; and
- The institution has no consumer complaints regarding its Community Reinvestment Act (CRA) performance.

SCOPE OF EXAMINATION

Second Federal Savings and Loan Association of Philadelphia (Second FS&LA) was evaluated under the Small Institution CRA examination procedures. Our evaluation period covered the institution's performance from July 1, 2010 through July 31, 2011 as this is reflective of its lending strategy since the last CRA examination. During this period, only three total loans were originated, all of which were home refinance mortgages. Home refinance mortgages were therefore determined to be the institution's primary loan product and were reviewed as part of this examination. In order to assess the institution's lending activity, we reviewed all home refinance mortgages originated during the evaluation period.

DESCRIPTION OF INSTITUTION

Second FS&LA is a federally-chartered mutual thrift headquartered in Philadelphia, Pennsylvania, and had assets of \$14.3 million as of June 30, 2011. The institution operates out of one office located in the Center City area of Philadelphia. It is open 9:00 AM to 3:00 PM, Monday through Friday. The institution does not offer Saturday banking hours, and does not have a website or any Automated Teller Machines (ATMs). The institution employs two full-time employees and three part-time employees. It offers single-family residential mortgage loans, consumer loans, and a limited number of commercial loan products. All loans are held in its portfolio and are not serviced by others.

The institution faces heavy competition from larger financial institutions within a few square blocks of its single office. Major competitors include: Bank of America, Citibank, TD Bank, M&T Bank, Wells Fargo, Prudential Savings, PNC, and Beneficial. The asset

size and branch network of each of these competitors are considerably larger than Second FS&LA. Additional competition for mortgages in Center City Philadelphia comes from the many large Realtors and their affiliates which have their own mortgage and banking divisions.

As of June 30, 2011 Second FS&LA reported \$14.3 million in total assets, \$6.2 million in net loans, and \$7.9 million in total deposits. The institution's loan portfolio consists of 96% residential mortgages and 4% non-residential mortgages. There were no commercial or consumer loans reported as of June 30, 2011. Home refinance mortgages were determined to be the institution's primary lending product during the evaluation period. Three total loans were originated between June 30, 2010 and July 31, 2011, with all three being home refinance mortgages. The institution stated that efforts to originate or purchase loans have not been successful, and that this is based on their small asset size and resources, low-risk tolerance, and negative economic conditions.

Second FS&LA does not have any legal, financial, or other condition restrictions that would impede its ability to meet the credit needs of the community. Second FS&LA received a "Substantial Noncompliance" rating at their last CRA examination dated August 2, 2010. No branches have been opened or closed since the last CRA examination was conducted.

DESCRIPTION OF ASSESSMENT AREA(S)

Second FS&LA's AA consists of a portion of Philadelphia County, PA. The AA, which is located in the Philadelphia, PA Metropolitan Division ("MD") #37964, contains 46 census tracts. According to the Bureau of Labor Statistics (BLS), the July 2011 "not-seasonally adjusted" unemployment rate in Philadelphia was 11.2%, which is higher than the Pennsylvania state unemployment rate of 8.2% and the National unemployment rate of 9.3%.

The AA meets the requirements of Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies. There are 15 low-income, 16 moderate-income, 8 middle-income, and 7 upper-income census tracts in the AA. The population of the AA is 200,424 and the Weighted Average of Median Housing Cost is \$101,251 based on 2000 Census information. The Weighted Average of Housing and Urban Development (HUD) updated MSA Median Family Income for 2011 is \$78,100.

Banking competition in the AA is strong. According to the June 30, 2010 FDIC Summary of Deposit Market Share Report, Second FS&LA was ranked 47 out of 50 depository institutions in Philadelphia County with a 0.02% deposit market share. Top competitors in this market include the following: Wells Fargo Bank, NA with a deposit market share of 35.93%, PNC Bank, NA with a deposit market share of 14.35%, Citizens Bank of PA with a deposit market share of 12.87%, Bank of America, NA with a deposit market share of 11.28%, and TD Bank, NA with a deposit market share of 6.09%.

The institution is not subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). However, market share data for all HMDA reporting institutions in the AA show that in 2009, there were a total of 333 lenders in the AA competing for home refinance mortgages with market shares ranging from 0.01% to 12.93%. The top five competitors share a total market share of 35.75% and include: Wells Fargo Bank, NA, Bank of America, NA, Wells Fargo Funding Inc., Trident Mortgage Company, and JPMorgan Chase Bank, NA.

During the examination, we contacted a director of an organization which provides pro bono legal counsel to low-income and unemployed individuals living in the city of Philadelphia. According to the contact, Philadelphia is currently plagued by high levels of unemployment and homelessness. There are many organizations that local financial institutions can get involved with which serve the needs of low- and moderate-income individuals living in the city of Philadelphia. The contact mentioned that the organization had a positive experience dealing with a larger financial institution and a negative experience dealing with another larger financial institution in the past. The contact has heard of Second FS&LA before but has never dealt with them. The contact did state that the organization prefers dealing with smaller financial institutions and they would keep Second FS&LA in mind for funding opportunities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Second FS&LA's performance under the lending test is in "Substantial Noncompliance". The institution's loan-to-deposit (LTD) ratio is reasonable. A substantial majority of Second FS&LA's home refinance mortgages were originated outside of its AA and the institution does not meet the standard for satisfactory performance for lending in the AA. Second FS&LA's record of lending to borrowers of different incomes reflects very poor penetration and does not meet the standard for satisfactory performance. The geographic distribution of loans in the AA reflects very poor dispersion throughout census tracts of different income levels and does not meet the standard for satisfactory performance. Additionally, the institution has not received any CRA-related consumer complaints with respect to lending performance within its AA. All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio, although below average, is reasonable given the institution's size and credit needs of its community. The institution's LTD ratio meets the standards for satisfactory performance. Second FS&LA's average LTD ratio calculated on quarter-end financial data from September 30, 2010 to June 30, 2011 is 78%. During the same time period, the LTD ratio for other financial institutions with total assets less than \$100 million as of June 30, 2011, and operating within a 35 mile radius of Philadelphia is 84%. During the evaluation period, the institution's LTD ratio ranged from a low of 75% at December 31, 2010 to a high of 84% at September 30, 2010. The institution's average LTD ratio during the prior evaluation period was 84% compared to a peer average of 82%. There are several factors that contribute to Second FS&LA's

quarterly average LTD ratio being slightly below its peer group average during the current evaluation period. These factors include the following:

- A high unemployment rate and households living below the poverty level in Philadelphia County makes it difficult for the institution to originate new loans; and
- Due to strong competition from larger financial institutions located within close proximity to the institution’s only office, the institution has historically had difficulty generating new loan growth.

Lending in Assessment Area

Second FS&LA does not meet the standard for satisfactory performance for lending in the AA. A substantial majority of home refinance mortgages originated during the evaluation period were made outside of the AA. The institution originated a total of three loans during the evaluation period with all three being home refinance mortgages. An analysis of these three loans disclosed that only one (33%) of the loans was originated within the AA.

The following table shows the distribution of loans by number and dollar amount made inside and outside of the AA.

Table 1 - Lending in AA (Portion of Philadelphia, PA)										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Refinance Mortgage	1	33%	2	66%	3	\$299	50%	\$299	50%	\$598

Source: Second FS&LA’s loan data 7/1/2010 – 7/31/2011; 2000 U.S. Census data

Lending to Borrowers of Different Incomes

Second FS&LA’s record of lending to borrowers of different incomes reflects very poor penetration throughout the AA and does not meet the standard for satisfactory performance. Of the families residing in the AA, 30.80% are low-income and 20.37% of families residing in the AA are moderate-income. The institution did not originate any loans to low- or moderate-income borrowers during the evaluation period. The one home refinance mortgage that was originated within the AA during the evaluation period was made to an upper-income borrower. Adverse economic factors such as high unemployment and poverty rates are prevalent in the AA. However, these factors do not preclude the institution from making any loans to low- and moderate-income borrowers, especially considering the volume of families residing in the AA who are low- and moderate-income.

The following table shows a comparison of the percentage of home refinance mortgages by borrower income level to the percentage of families in each income level in the AA.

Borrower Distribution of Residential Real Estate Loans in 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 Refi	39.80%	0%	20.37%	0%	16.54%	0%	23.29%	100%

Source: Second FS&LA's loan data 7/1/2010 – 7/31/2011; 2000 U.S. Census data

Geographic Distribution of Loans

Second FS&LA's geographic distribution of loans reflects very poor dispersion throughout the AA and does not meet the standard for satisfactory performance. The one home refinance mortgage which was originated within the institution's AA during the evaluation period was made in an upper-income census tract. No home refinance mortgages were originated within low- or moderate-income census tracts. The breakdown by income level of the census tracts in the AA as designated during the 2000 US Census is as follows: fifteen low-income, sixteen moderate-income, eight middle-income, and seven upper-income CTs. Even taking into consideration the adverse economic conditions prevalent in the AA, the institution's record of lending did not meet the standards for satisfactory performance for the geographic distribution of loans.

The following table shows a comparison of the percentage of home refinance mortgages originated in each census tract by income level to the percentage of owner occupied housing in each census tract by income level in the AA.

Geographic Distribution of Residential Real Estate Loans in AA								
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 Refi	33.25%	0%	36.90%	0%	13.55%	0%	16.30%	100%

Source: Second FS&LA's loan data 7/1/2010 – 7/31/2011; 2000 US Census Data

Responses to Complaints

During the review period, the institution did not receive any CRA related consumer complaints with respect to lending performance within its AA.

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.