



## **PUBLIC DISCLOSURE**

July 28, 2014

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

Southern Hills Community Bank  
Charter Number 704013

45 E. Main St  
Leesburg, Ohio 45135-9601

Office of the Comptroller of the Currency

Westlake Center  
4555 Lake Forest Drive, Suite 520  
Cincinnati, Ohio 45242-3760

**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.**

This rating is primarily based on the following:

- Southern Hills Community Bank's (Southern Hills or thrift) loan-to-deposit (LTD) ratio is more than reasonable.
- Southern Hills makes a majority of their loans inside their assessment area (AA).
- Lending to borrowers of different income levels and to businesses of different sizes reflects excellent penetration.
- Southern Hills' performance in lending to geographies of different income levels exhibits reasonable dispersion.

**SCOPE OF EXAMINATION**

We conducted a full scope Community Reinvestment Act (CRA) evaluation to assess the thrift's record of meeting the credit needs of its community, including low- and moderate-income areas. We used small savings association evaluation procedures to evaluate the thrift's performance under the Lending Test. The Lending Test includes loans originated from January 1, 2012 to December 31, 2013, the lending evaluation period.

Residential real estate loans, loans to businesses (commercial and commercial real estate), and consumer loans are the thrift's primary lending products and are considered foremost in this CRA evaluation. To perform our analysis of lending inside the AA, we randomly sampled 20 residential real estate, 20 business, and 20 consumer loans originated during the lending evaluation period. Additional loans located within the AA were then selected as necessary to ensure at least 20 loans of each sampled loan type were used for the borrower and geographic distribution analysis. We used the 2010 U.S. Census data to analyze performance.

**DESCRIPTION OF INSTITUTION**

Southern Hills is a federally chartered mutual thrift institution that formed following the 2011 merger of Leesburg Federal Savings Bank and the Home Builders Association of Lynchburg. Total assets equaled \$83 million as of December 31, 2013. The main office is located in Leesburg, Ohio. The thrift has two additional offices, one in Greenfield and the other in Lynchburg. All three offices are located in Highland County and are in middle-income geographies. Effective June 1, 2013, all of the offices were located in distressed middle-income nonmetropolitan census tracts. Each office has a drive-up facility and an automated teller machine (ATM). The thrift operates one additional stand-alone ATM in Lynchburg, which is located in a middle-income geography. None of the ATMs take deposits.

Southern Hills offers a wide variety of deposit and lending products and services. The thrift has three primary lending products including residential real estate loans, loans to businesses, and consumer loans. As of December 31, 2013, the bank’s loan portfolio totaled \$61 million, with net loans representing 74 percent of total assets. Table 1 below reflects the thrift’s lending activity and portfolio mix during the lending evaluation period.

<b>Table 1 – Loan Mix</b>				
<b>Loan Type</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>		<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>	
	<b># of Loans</b>	<b>%</b>	<b>\$000s</b>	<b>%</b>
Residential Real Estate Loans	95	6.44%	\$ 8,478	26.66%
Business Loans	224	15.19%	\$ 9,771	30.72%
Consumer Loans	1,078	73.08%	\$ 9,412	29.59%
Farm/Agriculture Loans	67	4.54%	\$ 3,841	12.08%
Home Equity Lines of Credit	11	0.75%	\$ 302	0.95%
<b>Total</b>	<b>1,475</b>	<b>100.00%</b>	<b>\$ 31,804</b>	<b>100.00%</b>

*Source: Thrift’s record of loans originated during 2012 and 2013.*

Presently, there are no financial or legal impediments that affect Southern Hills’ ability to help meet the credit needs of its AA. The thrift’s previous CRA evaluation (while known as Leesburg Federal Savings Bank) was conducted as of July 7, 2008, and resulted in an “Outstanding” rating.

**DESCRIPTION OF ASSESSMENT AREA**

Southern Hills’ AA includes eight contiguous census tracts and is located in a Non-Metropolitan Statistical Area (Non-MSA). The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. Seven census tracts are located in northern Highland County and one contiguous tract is located in western Ross County. Of the eight census tracts, four are moderate-income census tracts (50 percent) and four are middle-income census tracts (50 percent). The three distressed middle-income census tracts are numbers 9544, 9546, and 9547 and are all located in Highland County. Thrift management selected this AA based on the bank’s targeted lending territory and office locations.

Southern Hills' market area consists of multiple townships in northern Highland County and two townships in western Ross County. Within these rural counties, competition is strong and includes national banks, branches of larger financial institutions, and other savings and loans institutions. According to the June 30, 2013 Deposit Market Share Report from the Federal Deposit Insurance Corporation (FDIC), Southern Hills had approximately a 2.96 percent deposit market share and ranked 9<sup>th</sup> out of 17 financial institutions.

Per the 2010 Census data, the population of the AA is 38,103, with 42.54 percent living in moderate-income census tracts and 57.46 percent living in middle-income census tracts. Approximately 62.94 percent of the housing units in the AA are owner occupied, with 42.11 percent located in moderate-income geographies and 57.89 percent in middle-income geographies. Within the AA, 17.38 percent of the households live below the poverty level and 2.95 percent receive public assistance. This demographic could present a limited opportunity for institutions to identify borrowers who meet general underwriting standards. The median housing value is \$103,852, the average median age of housing is 42 years, and the weighted average monthly gross rent is \$579.

Per the 2010 U.S. Census data, the thrift's Non-MSA AA median family income for the State of Ohio is \$52,111. The HUD (Department of Housing and Urban Development) estimate of the AA's updated median family income was \$53,600 for 2012 and \$53,000 for 2013. Approximately 23.17 percent of the families in the AA are low-income and 18.65 percent are moderate-income, with the remainder as middle- and upper-income.

Highland and Ross Counties experienced high unemployment during the financial crisis. Highland County remains above the state and national unemployment levels. According to the Ohio Labor Market Information as of June 2013, the "not seasonally adjusted" national and State of Ohio unemployment rates were 6.3 percent and 5.9 percent, respectively. The "not seasonally adjusted" unemployment rates for Highland and Ross Counties were 6.9 percent and 6.0 percent, respectively for the same time period. Per the 2010 Census, the largest employment sectors in the AA are manufacturing, state/local government, and retail trade. Major employers include Greenfield Exempted Village Schools, Greenfield Research, Highland District Hospital, Huhtamaki Packaging Worldwide, Candle-Lite Inc., PAS Technologies, Toyo Denso Co/Weastec Inc., and Wal-Mart Stores Inc.

Community contacts indicate the AA's economy is average and still recovering in some sectors. The credit needs of the AA include residential real estate (affordable housing) and small business lending. According to the contacts, local financial institutions are meeting those needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Southern Hills lending performance is satisfactory.

### Loan-to-Deposit Ratio

Southern Hills' loan-to-deposit (LTD) ratio is more than reasonable given their size, financial condition, and AA credit needs. As of December 31, 2013, the thrift's LTD ratio was 88.66 percent. Since the previous evaluation, the thrift's quarterly LTD ranged from a low of 83.81 percent as of June 30, 2013, to a high of 114.82 percent as of March 31, 2009. The thrift's quarterly average LTD ratio for the last 20 quarters of 100.41 percent is more than reasonable when compared to similarly-situated financial institutions. A review of five similarly-situated financial institutions located in the AA revealed an average LTD ratio of 77.93 percent over the same time period.

### Lending in Assessment Area

Southern Hills' record of lending within its AA is satisfactory with a majority of their lending inside the AA. Table 2 details Southern Hills' AA lending activity during the evaluation period by the number of loans originated and dollar volume.

Table 2 – Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans (000's omitted)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<b>Residential Real Estate</b>	12	60.0%	8	40.0%	20	1,231	51.0%	1,183	49.0%	2,414
<b>Business</b>	12	60.0%	8	40.0%	20	716	71.5%	286	28.5%	1,002
<b>Consumer</b>	9	45.0%	11	55.0%	20	193	48.2%	207	51.8%	400
<b>Totals</b>	33	55.0%	27	45.0%	60	2,140	56.1%	1,676	43.9%	3,816

*Source: Residential Real Estate, Business (commercial and commercial real estate), and Consumer loans derived from loan samples (loans originated from January 1, 2012 through December 31, 2013).*

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Southern Hills' borrower distribution of its three primary lending products reflects excellent penetration.

Lending to borrowers of different income levels for residential real estate loans in the AA is excellent. As shown in Table 3 below, Southern Hills’ distribution of lending to low- and moderate-income borrowers during the lending evaluation period exceeded the percentage made by AA lenders.

<b>Table 3 – Borrower Distribution of Residential Real Estate Loans in the AA</b>			
Borrower Income Level	% of Total Thrift Loans	% of Loans by AA Lenders	% of AA Families by Income Level
Low	10%	7.62%	23.17%
Moderate	40%	22.61%	18.65%
Middle	25%	25.84%	24.06%
Upper	25%	36.05%	34.12%
Income Not Available	--	7.88%	--

Source: 2010 U.S. Census data and Loan Sample from January 1, 2012 through December 31, 2013.

Lending to businesses with different revenue levels in the thrift’s AA reflects excellent penetration. Within the AA, 73.89 percent of businesses have revenues less than \$1 million, and the thrift originated 90 percent of its loans to businesses with revenues less than \$1 million.

<b>Table 4 - Borrower Distribution of Loans to Businesses in the AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73.89%	3.13%	22.98%	100%
% of Thrift Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Thrift Loans in AA by \$	80.89%	19.11%	0.00%	100%

Source: 2013 Business Geodemographic data and Loan Sample from January 1, 2012 through December 31, 2013.

Lending to consumers of different income levels in the AA is excellent. Within the AA, 26.69 percent of the AA households are low-income. The thrift originated 15 percent of its consumer loans in our sample to consumers in this category, which reflects reasonable penetration given the number of families living under the poverty line in the AA. However, the thrift originated 40 percent of its consumer loans to consumers in the moderate-income category, significantly exceeding AA demographics of 16.69 percent of households in the AA.

<b>Table 5 – Borrower Distribution of Consumer Loans in the AA</b>		
Borrower Income Level	% of Total Thrift Loans	% of AA Households
Low	15.00%	26.69%
Moderate	40.00%	16.69%
Middle	25.00%	18.72%
Upper	10.00%	37.90%
Not Applicable (NA)	10.00%	0.00%

Source: 2010 U.S. Census data and Loan Sample from January 1, 2012 through December 31, 2013.

**Geographic Distribution of Loans**

Southern Hills’ geographic distribution of loans within the AA reflects reasonable dispersion. The analysis reflected lending in most tracts, with 11 of the 60 loans sampled (18 percent) located in distressed middle-income nonmetropolitan census tracts. Given the level of loans originated in distressed middle-income nonmetropolitan tracts and reasonable dispersion in the residential real estate loan sample, overall geographic distribution of loans is reasonable.

Southern Hills’ geographic distribution of residential real estate loans within the moderate-income census tracts reflects reasonable dispersion when compared to the level of loans made by AA lenders and owner occupied housing units in the AA. Of the 6,775 total households in the moderate-income census tracts in the AA, 1,543 or 22.78 percent of the households in these tracts live below the poverty line and may not meet the standards to qualify for a home mortgage loan. In addition, five of the 14 loans originated in the middle-income census tracts in our sample were in distressed middle-income nonmetropolitan tracts.

<b>Table 6 – Geographic Distribution of Residential Real Estate Loans in the AA</b>			
Census Tract Income Level	% of Total Thrift Loans	% of Loans by AA Lenders	% of AA Owner Occupied Housing Units
Moderate	30.00%	41.99%	42.11%
Middle	70.00%	58.01%	57.89%

*Source: 2010 U.S. Census data and Loan Sample from January 1, 2012 through December 31, 2013.*

Southern Hills’ geographic distribution of loans to businesses within the AA reflects a reasonable dispersion. The portion of loans made in moderate-income census tracts was below the percentage made by AA peers and the percentage of businesses in moderate-income geographies. However, three of the 15 loans originated in the middle-income census tracts in our sample were in distressed middle-income nonmetropolitan tracts.

<b>Table 7 – Geographic Distribution of Loans to Businesses in the AA</b>			
Census Tract Income Level	% of Thrift Loans	% of Loans by AA Peers	% of AA Businesses
Moderate	25.00%	48.82%	49.98%
Middle	75.00%	51.18%	50.02%

*Source: 2013 Business Geodemographic Data and Loan Sample from January 1, 2012 through December 31, 2013.*

Southern Hills’ geographic distribution of loans to consumers within the AA reflects a reasonable dispersion. The portion of loans made in moderate-income census tracts was below the percentage of AA households in moderate-income census tracts. However, a significant level of households living below the poverty line limit lending opportunities and three of the 15 loans originated in the middle-income census tracts were in distressed middle-income nonmetropolitan tracts.

<b>Table 8 – Geographic Distribution of Consumer Loans in the AA</b>		
<b>Census Tract Income Level</b>	<b>% of Total Thrift Loans</b>	<b>% of AA Households</b>
Moderate	25.00%	46.41%
Middle	75.00%	53.59%

*Source: 2010 U.S. Census data and Loan Sample from January 1, 2012 through December 31, 2013.*

## **Responses to Complaints**

Southern Hills has not received any complaints about its performance in helping to meet the AA credit needs during the evaluation period.

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

Pursuant to 12 C.F.R. 195.28(c) in determining a Federal Savings Association’s (FSA’s) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA’s lending performance.

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