

# **PUBLIC DISCLOSURE**

**June 6, 2011**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Security Federal Bank (Security or Bank)  
632 E Elk Ave  
Elizabethton, Tennessee 37643-3330  
Docket #: 06842**

**Office of Thrift Supervision  
Southeast Region  
1475 Peachtree Street, NE  
Atlanta, Georgia 30309**

**NOTE:** This document is an evaluation of Security Federal Bank'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 Security. The rating assigned to this bank does not represent an analysis, conclusion, or opinion of the Office of Thrift Supervision (OTS) concerning the safety and soundness of Security.



**Office of Thrift Supervision**  
Department of the Treasury

*Southeast Region*

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June 22, 2011

Board of Directors  
Security Federal Bank  
632 East Elk Avenue  
Elizabethton, Tennessee 37643-3330

Board of Directors:

Enclosed is Security's written Community Reinvestment Act (CRA) Performance Evaluation. The OTS prepared the evaluation as of June 6, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), Security must make this evaluation and CRA rating contained therein, available to the public within 30 business days of receiving it.

The evaluation must be placed in your CRA public file at your home office within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

If you elect to prepare a response to the evaluation, you must place the response in the CRA public file along with the evaluation, and forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the bank has to make this evaluation available to the public. Consequently, we suggest you review Security's internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of Security.

Sincerely,

Valorie Owen  
Senior Compliance Review Examiner

Enclosure

**Table of Contents**

**GENERAL INFORMATION ..... 1**

**INSTITUTION ..... 2**

    OVERALL RATING ..... 2

    DESCRIPTION OF INSTITUTION ..... 2

    DESCRIPTION OF THE ASSESSMENT AREA ..... 3

    CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS ..... 4

    FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW ..... 8

**CRA RATING DEFINITIONS ..... 9**

## **General Information**

The CRA requires the OTS to assess a savings association's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operation of the savings association. The OTS must prepare a written evaluation of the savings association's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Security Federal Bank (Security or bank) prepared by the OTS, as of June 6, 2011. The OTS evaluates performance in assessment areas delineated by Security rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the bank's branches. The OTS rates the CRA performance of a savings association consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

## ***Institution***

### **Overall Rating**

**INSTITUTION'S CRA RATING:** Security is rated "Satisfactory record of meeting community credit needs."

Security was assigned a CRA rating of "Satisfactory record of meeting community credit needs" as a result of the preceding evaluation conducted as of January 31, 2007.

In performing this evaluation, the examiner analyzed Security's residential mortgage and business lending activity for calendar years 2008 through 2010. The bank maintained a very strong loan-to-deposit (LTD) ratio and the majority of its business and mortgage loan originations involved properties located inside the assessment area. Although Security's percentage of lending to LMI borrowers and within moderate-income census tracts (CTs) was not fully commensurate with assessment area demographics, when compared to other lenders, it was generally commensurate with their percentage of lending to these individuals and within the moderate-income tracts.

### **Description of Institution**

Security is a federally chartered, stock institution, wholly owned by SFB Bancorp, Inc., a unitary savings and loan holding company. Security's main office is located in downtown Elizabethton, Tennessee (TN), approximately 100 miles east of Knoxville, TN. Security also operates one branch in the Elizabethton area. No offices were opened or closed during the review period.

Security's operating activities have not changed significantly since the preceding CRA evaluation, and its business philosophy continues to represent that of a traditional thrift with emphasis upon the origination of residential and non-residential real estate mortgage loans, land loans, commercial loans, and consumer loans funded by local retail deposit accounts. Automated teller machines are located at each branch, and Security also maintains a transactional website offering online bill pay to customers and telephone banking with account inquiry and transfer capabilities.

***Institution (continued)***

As of March 31, 2011, Security’s net mortgage loan portfolio represented approximately 67.5 percent of assets. At that time, one-to-four-family and five-dwelling unit loans represented approximately 54.2 percent of the mortgage loan portfolio while construction loans, nonresidential loans, and land loans represented approximately 2.1 percent, 9.6 percent, and 2.4 percent, respectively, of the bank’s mortgage loan portfolio. Non-mortgage loans represented 9.2 percent of assets, cash and investment securities represented 18.6 percent of assets, and mortgage backed securities represented approximately 0.5 percent of assets.

There are no legal or regulatory restrictions that adversely impact Security’s ability to meet community credit needs.

**Description of the Assessment Area**

Security’s assessment area consists of all of Carter County, Tennessee, which is part of the Johnson City, Tennessee Metropolitan Statistical Area (MSA). According to 2000 Census data, the total population of the assessment area was 56,742. Based upon data compiled from the 2000 Census, the following demographic data for the assessment area was identified:

Census Tract Income Category	Percent of MFI	Number of Census Tracts	Distribution of Population	Owner-Occupied Housing Units
Low-Income	<50%	0	0.0%	0.0%
Moderate-Income	>50%-<80%	3	13.5%	15.0%
Middle-Income	>80%-<120%	14	86.5%	85.0%
Upper-Income	>120%	0	0.0%	0.0%
<b>Total</b>		<b>17</b>	<b>100.0%</b>	<b>100.0%</b>

The assessment area is located in northeast TN, and is contiguous to the “Tri-Cities” area encompassed by Bristol, Johnson City, and Kingsport, TN. The “Tri-Cities” economy appears to be well diversified and not heavily dependent upon any one industry or employer. Some of the largest employers in the “Tri-Cities” area are AFG Industries, American Water Heater, Eastman Chemical Company, East Tennessee State University, Exide Technologies, Johnson City Schools, Kingsport City Schools, Pfizer Pharmaceuticals, Mountain States Health Alliance, as well as other medical and municipal system employers. As a result of prevailing economic conditions and the recession during the review period, the unemployment rate in the Johnson City MSA increased from 4.9 percent in January 2007 to 10.3 percent during January 2010. However, by March 2011, the unemployment rate had decreased to 8.6 percent.

According to information obtained from the Federal Deposit Insurance Corporation, as of June 30, 2010, there were six federally insured depository institutions, including Security, located in the designated assessment area operating a total of 14 branch offices with approximately \$638.1 million

***Institution (continued)***

in customer deposits. The two banks with the greatest deposit market share within the assessment area were Citizens Bank (35.5 percent) and Carter County Bank (32.6 percent). In comparison, Security's market share of deposits was only 6.6 percent.

**Conclusions with Respect to Performance Tests**

**Loan-to-Deposit (LTD) Ratio**

Information compiled from the OTS's Thrift Financial Reports disclosed that Security's LTD ratio averaged 114.1 percent during the 17-quarter period ended March 31, 2011. This ratio significantly exceeds the average LTD ratio of 88.9 percent during this period for similarly sized savings associations in the Southeast Region of the OTS. As a result, the examiner concludes that Security's LTD ratio exceeds the standards for satisfactory performance for this criterion.

**Residential Lending within the Assessment Area**

An analysis of Security's mortgage loan application records for calendar years 2008 through 2010 disclosed that the bank originated 197 mortgage loans totaling approximately \$19.1 million. Of these, 167 loans (84.8 percent) were secured by properties located within the assessment area. The results of this analysis are reflected below:

Assessment Area	Number of Loans	Percent	Loan Amount (000's)	Percent
Inside	167	84.8%	\$ 14,030	73.4%
Outside	30	15.2%	5,085	26.6%
Total	197	100.0%	\$ 19,115	100.0%

**Institution (continued)**

**Business Lending Within the Assessment Area**

In addition to residential mortgage loans, analysis of the bank’s business and small farm loan records for the review period disclosed that 119 loans totaling approximately \$6.8 million were originated for business purposes in the communities served. Of these, 98 loans (82.4 percent) were originated to businesses and farms located within the assessment area. The results of this analysis are reflected below:

Assessment Area	Number of Loans	Percent	Loan Amount (000’s)	Percent
Inside	98	82.4%	\$ 5,779	84.9%
Outside	21	17.6%	1,027	15.1%
Total	119	100.0%	\$ 6,806	100.0%

Based upon the above, the examiner concludes that Security’s record of lending within the assessment area exceeds the standards for satisfactory performance for this criterion.

**Lending to Borrowers of Different Income Levels**

To evaluate Security’s lending to borrowers of different income levels within the assessment area, the examiner identified specific income categories (low-, moderate-, middle-, and upper-income) using the Department of Housing and Urban Development's (HUD) estimated median family income figures for the Johnson City, Tennessee MSA as reflected below:

Year	Estimated Median Family Income
2008	\$44,700
2009	48,100
2010	47,900

The examiner compared the bank's mortgage lending record to the percentage of families within the assessment area within each respective income range. This analysis utilizes the best information available, and assumes that while income levels have increased since 2000, the population distribution among income ranges has not significantly changed.

**Institution (continued)**

The analysis indicates that mortgage loans originated within the assessment area during calendar years 2008 through 2010 were distributed among borrowers of different income levels as follows:

Borrower Income Category*	Loan Volume				Percent of Families *
	Number	No. Pct.	Dollar (000's)	\$ Pct.	
Low-Income	18	11.4%	\$ 990	7.7%	23.2%
Moderate-Income	29	18.3%	1,394	10.8%	20.8%
Middle-Income	45	28.5%	3,338	25.8%	24.9%
Upper-Income	66	41.8%	7,196	55.7%	31.1%
<b>Total</b>	<b>158</b>	<b>100.0%</b>	<b>\$12,918</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Income Not Available</b>	<b>9</b>		<b>\$ 1,112</b>		

\*Percent of families according to 2000 Census Data

The above comparisons indicate that the percentage of Security’s mortgage loans granted to low-income borrowers was below the percentage of low-income families residing within the assessment area but was almost commensurate with the percentage of moderate-income families. However, the examiner acknowledges that the bank’s ability to originate loans to low-income individuals and families is very likely influenced by family poverty levels. In this regard, Census data indicates that approximately 12.8 percent of all families residing within the assessment area have incomes below the poverty level.

To further evaluate the lending activity, the examiner also compared the bank’s mortgage lending record to that of other lenders. This comparative data was derived from 2008 and 2009 Aggregate HMDA data (2010 data was not available) for loan originations within the assessment area. The results of the examiner’s review are set forth below:

Borrower Income Level	Security’s 2008 and 2009 Loan Volume				Percent of Families *	2008-2009 Aggregate HMDA **
	Number of Loans	Percent of Loans	Dollar Amount (000)	Percent of Dollar Amount		
Low-Income	13	11.3%	\$ 932	9.7%	23.2%	11.5%
Moderate-Income	21	18.3%	965	10.0%	20.8%	20.1%
Middle-Income	33	28.7%	2,571	26.7%	24.9%	27.8%
Upper-Income	48	41.7%	5,150	53.6%	31.1%	40.6%
<b>Total</b>	<b>115</b>	<b>100.0%</b>	<b>\$ 9,618</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Income Not available</b>	<b>6</b>		<b>\$ 870</b>			<b>160</b>

\*Percent of families according to 2000 Census Data  
 \*\*Percent of Loans Originated By PEER Lenders.

The above comparisons indicate that the percentage of Security’s mortgage loans granted to LMI borrowers was commensurate with that of other lenders.

***Institution (continued)***

The examiner also analyzed data provided for the business and small farm loans originated by the bank during calendar years 2008 through 2010. This analysis disclosed that a majority of the loans originated in the assessment area were for amounts of \$100,000 or less. The results of this analysis are presented below:

Loan Amount	Number of Loans	Percent	Loan Amount (000's)	Percent
< \$100,000	86	87.8%	\$2,422	41.9%
> \$100,000 < \$250,000	7	7.1%	1,229	21.3%
> \$250,000	5	5.1%	2,128	36.8%
<b>Total</b>	<b>98</b>	<b>100.0%</b>	<b>\$5,779</b>	<b>100.0%</b>

Although Security's percentage of mortgage lending to LMI individuals within the assessment area was below community demographics, it was generally commensurate with that of other lenders. Additionally, a majority of the business loans originated by the bank were for amounts of \$100,000 or less. Consequently, the examiner concludes that Security's percentage of lending to LMI borrowers meets the standards for satisfactory performance for this criterion.

**Geographic Distribution of Loans**

Since the bank did not provide CT information for the business loans originated during the review period, an analysis could not be performed to determine the geographic distribution of those loans. However, the examiner reviewed Security's loan records to determine the geographic distribution of mortgage loans originated by the bank within the assessment area during calendar years 2008 through 2010. The bank's mortgage loan distribution was compared to the distribution of Owner-Occupied Housing Units (OOHUs) within moderate- and middle-income CTs since Census data indicates that there are no low- or upper-income CTs located within the assessment area. The following table below details the lending by the bank in those CTs within the assessment area:

Census Tract Income Category	Loan Volume				Percent of O.O.H.U.*
	Number	No. Pct.	Dollar (000)	\$ Pct.	
Moderate-Income	14	8.4%	\$ 2,358	16.8%	15.0%
Middle-Income	153	91.6%	11,672	83.2%	85.0%
<b>Total</b>	<b>167</b>	<b>100.0%</b>	<b>\$14,030</b>	<b>100.0%</b>	<b>100.0%</b>

\*Percent of O.O.H.U.s according to 2000 Census Data

**Institution (continued)**

As reflected above, Security’s penetration of moderate-income CTs was below the demographics. The bank’s lending patterns were also compared against calendar year 2008 and 2009 Aggregate HMDA data (2010 data was not available). The results of this analysis are presented below:

Census Tract Income Category	Security’s 2008 and 2009 Loan Volume				Percent of O.O.H.U.*	2008-2009 Aggregate HMDA **
	Number of Loans	Percent of Loans	Dollar Amount (000)	Percent of Dollar Amount		
Moderate-Income	11	9.1%	1,978	18.9%	15.0%	11.8%
Middle-Income	110	90.9%	8,510	81.1%	85.0%	88.2%
Total	121	100.0%	\$10,488	100.0%	100.0%	100.0%

\*Percent of O.O.H.U.s according to 2000 Census Data

\*\*Percent of loans originated by PEER Lenders

As revealed above, the percentage of Security’s loans within the moderate-income CTs was below the percentage of OOHUs, but was generally commensurate with the record of other lenders in those tracts. Additionally, the bank’s loan amount percentage for its loan originations in those tracts slightly exceeded the percentage of OOHUs. Consequently, considering this factor and that the bank’s percentage of lending within these tracts compares favorably with that of other lenders, the examiner concluded that Security’s geographic distribution of lending meets the standards for satisfactory performance for this criterion.

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

No substantive violations of the antidiscrimination laws and regulations were identified at Security’s most recent compliance examination.

Response to Community Complaints

No complaints concerning Security’s performance in meeting the credit needs of the assessment area or exhibiting discriminatory lending patterns or practices were received by the OTS since the preceding evaluation.

## **CRA Rating Definitions**

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.