



PUBLIC DISCLOSURE

April 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Stephens Federal Bank
Charter Number 703576

2859 Highway 17A
Toccoa, GA 30577

Office of the Comptroller of the Currency

Atlanta Field Office
3 Ravinia Drive, Suite 1950
Atlanta, GA 30346

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

Stephens Federal Bank's (SFB) performance rating is supported by the following:

- SFB's average loan-to-deposit ratio of 93 percent exceeds the standards for satisfactory performance, and is commensurate with its size, competitive factors, and financial condition.
- SFB meets the standards for satisfactory performance in lending to borrowers within the assessment area (AA). Our sample revealed that 56 percent of the number of originations were to borrowers residing in the AA.
- Lending to borrowers of different incomes reflects weak performance, however, current economic conditions and demographic information for the AA (AA) are mitigating factors which preclude a more harsh overall rating. *See the Lending to Borrowers of Different Incomes section of this Performance Evaluation (PE) for further details.*
- Lending to geographies of different income levels within the AA is reasonable.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is a full scope review that covers the period between January 1, 2010 and December 31, 2012. To perform this evaluation, we used the Community Reinvestment Act small bank procedures. Lending performance was evaluated by sampling the bank's primary loan product, residential mortgage loans. We reviewed a random sample of 50 such loans. In addition, we relied on internally generated reports for our residential mortgage loan review. SFB is not subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (HMDA).

DESCRIPTION OF INSTITUTION

SFB is a federally chartered, mutual savings association with total assets of approximately \$174 million as of December 31, 2012. Since the end of 2008, bank management has been shrinking the balance sheet in an attempt to preserve capital ratios.

The Institution is located in Toccoa, Stephens County, Georgia, approximately 50 miles from Athens and approximately 90 miles northeast of Atlanta. SFB operates three branch offices in Georgia; two in Stephens County (both in Toccoa) and one in Rabun County (Clayton). All offices are located in middle-income census tracts. A branch in Towns County (Hiawassee) and a loan production office in Cleveland, White County, Georgia were closed during the review period. SFB is able to continue to serve customers in those areas through its full service branches located in Toccoa and Clayton. Existing customers are also served through telephone banking services and

internet banking (transactional web site). SFB continues to have three ATM locations located in the AA and provides access to funds via non-bank ATMs.

As a traditional savings association, the Institution concentrates its operations in the origination of mortgage loans and the acceptance of deposits. Loan products offered include conventional fixed-rate, balloon and adjustable rate mortgage loans for the purchase, construction and refinance of single-family dwellings. The Bank also offers HELOCs, commercial lines of credit, consumer loans, land/lot and commercial/investment property loans. The Bank offers products that contain various features that customers have requested and that remain competitive with other local financial institutions. Fixed rate residential loan originations are usually sold to FHLMC (Freddie Mac) with servicing retained. SFB also offers complete HAMP and HARP mortgage modifications and refinances to assist the public in refinancing at today's improved interest rates.

SFB's last CRA PE was conducted as of February 4, 2008, and was conducted by the Office of Thrift Supervision (OTS). SFB received an overall rating of "satisfactory record of meeting the community credit needs".

Since the last CRA exam, SFB has experienced declining loan demand, branch closings, and a change in AA. All of these events are believed to have affected the bank's CRA performance. Decreased loan demand has contributed to a year-end 2012 loan to deposit ratio of 75 percent, which is a continued decline from a high of 110 percent in June of 2008. Loan demand has seen significant declines for all banks within SFB's peer group. As a result, the bank's lending to borrowers with low and/or moderate incomes has declined.

DESCRIPTION OF ASSESSMENT AREA(S)

SFB has designated all of Stephens and Rabun Counties within the State of Georgia as its CRA AA. These two counties are not a part of any Metropolitan Statistical Area or Metropolitan Division.

As such, the counties are represented by the following geographic census tracts:

Stephens County – County 257, Tracts 9701.00, 9702.00, 9703.01, 9703.02 and 9704.00. The Main Office is located in tract 9702.00 and the Doyle Street branch is located in tract 9703.01.

Rabun County – County 241, Tracts 9701.00, 9702.01, 9702.02, 9703.01 and 9703.02. The Clayton branch is located in tract 9702.01.

Within the 10 census tracts, there are designations of moderate-, middle-, and upper-income levels, with the majority of tracts being middle-income. Effective July 1, 2012, both Stephens and Rabun Counties had distressed and underserved tracts within the AA. In Stephens County, four of the five tracts are distressed due to poverty levels

(tract nos. 9701.00, 9702.00, 9703.02, and 9704.00). In Rabun County, two of the five tracts are underserved due to being remote rural tracts (tract nos. 9702.02 and 9703.02).

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
Census Year	2000	2010
Population	40,485	42,451
Number of Families	11,468	10,993
Number of Households	16,276	16,455
Geographies		
Number of Census Tracts	7	10
% Low-Income Census Tracts	0%	0%
% Moderate-Income Census Tracts	0%	20%
% Middle-Income Census Tracts	100%	60%
% Upper-Income Census Tracts	0%	20%
Median Family Income (MFI)		
MFI for AA	\$37,578	\$46,288
HUD-Adjusted MFI	\$44,600	\$45,200
Unemployment Rate	2.68%	37.23%
Weighted Avg Median Housing	\$85,956	\$152,591
% of Households Below Poverty Level	14.54%	19.99%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SFB meets the standards for satisfactory performance. Refer to the following conclusions for loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes, and geographic distribution of loans.

Loan-to-Deposit Ratio

Per the FDIC Summary of Deposits report as of June 30, 2012, there are eight financial institutions in the AA. SFB has the largest market share of these deposits at 20 percent. Other institutions include branches of larger community banks, regional, and national banks and three small community banks.

SFB's loan-to-deposit ratio is more than reasonable and commensurate with its size, available resources, lending activities, as well as the demographics of the AA. The quarterly average loan-to-deposit ratio is 93% since the last CRA examination.

Average Loan-to-Deposit Ratios		
Institution	Assets (as of 06//30/2012)	Average LTD Ratio
<i>Stephens Federal Bank</i>	174,867	92.84
Rabun County Bank	188,683	87.24
First American Bank and Trust Company	547,311	86.39
Northeast Georgia Bank	410,975	63.34

Lending in Assessment Area

SFB meets the standards for satisfactory performance for lending within its AA. We conducted sampling activities for loans originated from 2010 to 2012. The bank is not a HMDA reporter and as a result we chose a sample of 50 residential real estate loans from the bank's loan trial balance. Our sample determined that a majority of the loans, or 56 percent, were inside the AA.

Lending to Borrowers of Different Incomes

To evaluate SFB's record of lending to borrowers of different incomes in calendar years 2010 through 2012, borrower incomes were stratified as a percentage of updated MFI for the AA. The updated MFI data is provided by the Department of Housing and Urban Development (HUD). The following information was compiled from the Institution's records:

Stephens' aggregate residential mortgage lending 2010-2011

Income Category	Percent of MFI	Number	% of Total Number	Volume (000s)	% of Total Volume	Distribution of Families *
Low	<50%	8	3.6%	\$509	1.6%	17.8%
Moderate	>=50<80%	30	13.4%	\$2,958	9.2%	19.6%
Middle	>=80<120%	42	18.8%	\$4,931	15.3%	23.0%
Upper	>=120%	144	64.3%	\$23,811	73.9%	39.6%
Total		224	100.0%	\$32,209	100.0%	100.0%

* Based on 2000 Census data for the AA

As indicated in the table above, the percentage of mortgage loans granted to low-and moderate-income borrowers in 2010-2011 was weak compared to the number of low-and moderate-income families within the AA.

Stephens' aggregate residential mortgage lending 2012

Income Category	Percent of MFI	Number	% of Total Number	Volume (000s)	% of Total Volume	Distribution of Families *
Low	<50%	9	3.9%	\$1,134	3.3%	20.6%
Moderate	>=50<80%	18	7.8%	\$1,298	3.8%	18.2%
Middle	>=80<120%	46	20.0%	\$5,950	17.2%	18.5%
Upper	>=120%	157	68.3%	\$26,157	75.7%	42.7%
Total		230	100.0%	\$34,539	100.0%	100.0%

* Based on 2010 Census data for the AA

Furthermore, as indicated in the above table, the percentage of mortgage loans granted to low- and moderate-income borrowers in 2012 was also weak compared to the number of low- and moderate-income families within the AA. Current economic conditions in the AA, including over 37 percent unemployment in 2012 and almost 20 percent of households being below the poverty level, indicate that low-income families may not be financially able to purchase a home. Demographic information for the AA indicated that low-income families have an annual income of \$22,600 (based on 2010 Census data), and the median housing cost for the AA was over \$152,000.

SFB's record of lending to borrowers of different income levels was also compared to the lending activity of other lenders in the AA, focusing on low- and moderate-income borrowers. The following table reflects Peer Mortgage Data for 2011 (the most recent available):

2011 Peer Mortgage Data (most recent available)

Income Category	Percent of MFI	SFB % of No. (2010-2011)	Other Lenders % of No.	Distribution of Families *
Low	<50%	3.6%	7.0%	17.8%
Moderate	>=50<80%	13.4%	16.9%	19.6%

*Based on 2011 data

Based on the comparison with other lenders in the AA, SFB's proportion of lending to low- and moderate-income borrowers improved somewhat. Based strictly on the numbers, the Institution's record of lending to borrowers of different incomes does not meet the standards for satisfactory performance; however, given the mitigating circumstances of overall economic conditions and demographics in the AA, the overall lending to borrowers of different income levels was weighted lower than other criteria.

Geographic Distribution of Loans

SFB meets the standard for satisfactory performance for geographic distribution of loans within the bank's AA. Based on the 2000 Census Bureau data all seven tracts in the AA were middle-income tracts. Changes in the 2010 census increased the bank's

AA to 10 tracts with two tracts considered moderate income tracts, six tracts considered middle income tracts, and two tracts considered upper income tracts.

Due to sampling limitations not allowing the assessment of the bank's lending behavior by different product type, the bank's home loan originations in each geography income level (low-, moderate-, middle-, or upper-) was compared to the percentage distribution of owner occupied units located in those geography income levels.

For loans originated in 2010 and 2011, the 2000 census data was used and all seven census tracts in the AA were middle income tracts. As such, this criterion was not meaningful based on 2000 census data.

For loans originated in 2012, 2010 census data was used. Based on 2010 census data, 18.15 percent, 60.20 percent, and 21.65 percent of owner occupied units were in moderate-, middle-, and upper- income tracts, respectively. Our sample showed that 60 percent and 40 percent of home loans originated in the AA in 2012 were to borrowers in moderate- and middle-income tracts, respectively. Although home loans to borrowers in middle-income tracts was below the level of owner occupied units, the higher proportion of loans to borrowers in moderate-income tracts mitigates any concerns and meets the standards for satisfactory performance.

Responses to Complaints

As of year-end 2012, there were no public comments or complaints concerning discriminatory lending activities or the bank's performance in meeting the credit needs of the community. Therefore, this criterion is not applicable.

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.