



## **PUBLIC DISCLOSURE**

April 14, 2016

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Federal of South Carolina, FSB  
Charter Number 706903

300 Robertson Blvd.  
Walterboro, SC 29488

Office of the Comptroller of the Currency

212 South Tryon St.  
Suite 700  
Charlotte, NC 28281

**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**

The major factors that support this rating include:

- The bank's quarterly average loan-to-deposit (LTD) ratio is reasonable based on the bank's size, financial condition, and relevant competitive factors;
- A majority of the bank's loans are made inside the assessment areas (AA);
- The distribution of borrowers reflects the reasonable penetration among borrowers of different income levels within the AA;
- The geographic distribution of loans reflects reasonable dispersion throughout the AA; and
- The bank did not receive any complaints relative to CRA.

**SCOPE OF EXAMINATION**

We performed a full-scope evaluation of First Federal of South Carolina's (FFSC) performance using Small Bank Community Reinvestment Act (CRA) examination procedures. This Performance Evaluation (PE) assesses the bank's performance under the Lending Test. Based upon the bank's business strategy and the loans originated during the evaluation period, we determined that home mortgage loans are the bank's primary loan product. In evaluating the bank's lending performance, we reviewed the home mortgage loans reported under the Home Mortgage Disclosure Act (HMDA).

The evaluation period for home mortgage loans is January 1, 2014 through December 31, 2015. The evaluation period for the loan-to-deposit is March 1, 2009 through September 30, 2015. We used 2010 U.S. Census data to analyze the bank's home lending for the period from January 1, 2014 through December 31, 2015.

*Data Integrity*

In January 2016, we conducted an evaluation of the integrity of publicly filed Home Mortgage Disclosure Act (HMDA) information to verify the accuracy of data. The bank's processes, procedures, and internal controls for HMDA data collection, verification, and reporting are satisfactory. There were no systemic reporting errors or problems identified. This CRA evaluation is based on accurate data.

**DESCRIPTION OF INSTITUTION**

First Federal of South Carolina, FSB (FFSC) is a federally chartered, stock savings association headquartered in Walterboro, Colleton County, South Carolina. The bank is a subsidiary of First Carolina Bancshares, M.H.C., which is also headquartered in Walterboro, SC. As of December 31,

2015, the bank had total assets of approximately \$73.9 million. The bank operates two branches in Colleton County including the main office in Walterboro and a branch in Edisto Beach. Two branches closed since the prior CRA exam conducted in 2009, and the only remaining branches are located in middle- and upper-income census tracts. No new branches were opened during the review period.

The bank operates as a traditional savings association, concentrating on the origination of mortgage loans and acceptance of deposit accounts. FFSC primarily engages in the origination of residential real estate loans. As of December 31, 2015, approximately 81 percent of total loans were 1-4 family residential loans. FFSC offers fixed and adjustable-rate conventional mortgage products for the purchase, refinance, improvement, and construction of single-family residences. In addition, the bank offers home equity lines of credit secured by single-family residences. The bank offers a five-year balloon product with a 15, 20, or 30-year amortization. FFSC sells a majority of the loans that it originates on the secondary market.

The table below reflects the distribution of FFSC's loan portfolio as of December 31, 2015:

<b>Table 1 - Major Components of Assets, Liabilities and Capital As of December 31, 2015</b>			
<b>Balance Sheet Component</b>	<b>Balance Sheet \$ Amount</b>	<b>% of Total Assets</b>	<b>\$ or % Growth in Period</b>
<b>Loans</b>			
Real Estate Loans	\$45,413	57.43%	11.26%
Commercial Loans	\$319	0.41%	18.94%
Individual Loans	\$964	1.33%	11.57%
<b>Investments</b>			
US Treasury & Agency Securities	\$13,120	17.76%	-20.90%
Municipal Securities	\$1,025	1.39%	N/A
Interest-Bearing Bank Balances	\$9,320	12.62%	-6.03%
<b>Total Assets</b>	<b>\$73,869</b>		
<b>Liabilities &amp; Capital (LC)</b>			
		<b>% of Total LC</b>	
Core Deposits	\$65,127	93.81%	-1.29%
Fed Home Loan Bor Mat < 1 Year	\$1,000	1.44%	N/A
<b>Total Liabilities</b>	<b>\$69,422</b>		
All Common And Preferred Capital	\$4,447	100.00%	14.53%
<b>Total Capital</b>	<b>\$4,447</b>		

On September 2012, FFSC entered into a Formal Agreement with the Office of the Comptroller of the Currency (OCC), requiring corrective action that impacted FFSC's ability to help meet the community credit needs of its assessment area. In response to the Formal Agreement, the Board strategically downsized the bank and closed two branches to improve capital and asset quality, which resulted in a decrease in loans. The bank now has one loan officer splitting time between the Walterboro and Edisto Beach branches.

FFSC's rating at the prior CRA evaluation, dated March 23, 2009, was "Outstanding."

## DESCRIPTION OF ASSESSMENT AREA(S)

FFSC has defined Colleton County as its assessment area (AA). Colleton County is located in the southeastern part of South Carolina which borders the Atlantic Ocean, and is located between Charleston and Beaufort counties. The AA meets the technical requirements of the CRA and does not arbitrarily exclude low- or moderate-income census tracts.

Some of the largest employers in Colleton County include the City of Walterboro, Colleton County, Walmart, and Colleton Medical Center. As of December 2015, the unemployment rate in Colleton County was 6.0 percent, which was slightly above the unemployment rate in the state of South Carolina (5.4 percent) and the unemployment rate of the United States (4.8 percent).

The following table highlight certain demographic characteristics of the AA.

Table 2 - Assessment Area Demographic Information								
Income Category	%Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	24.90%	0	0.00%	0%	0%	0.00%	\$0	N/A
Moderate	16.71%	3	34.42%	35.45%	42.34%	27.34%	\$76,016	25
Middle	19.31%	5	51.87%	57.53%	52.86%	53.58%	\$96,599	30
Upper	39.08%	1	13.71%	7.02%	4.79%	19.08%	\$288,300	25
<b>Total # or \$</b>	<b>100.00</b>	<b>10***</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>\$115,792</b>	<b>28</b>

\*\*\* While there are ten (10) census tracts in total, one (1) census tract is considered "N/A" for Income Level, and other Demographic Data.

Competition for loans and deposits within the AA is moderate. An analysis of the FDIC's 2015 Deposit Market Share data disclosed that FFSC ranked third out of seven institutions within the AA. The top two institutions with the highest market share were Bank of Walterboro and South State Bank, with 30.24 and 22.22 percent of the market share, respectively. These institutions are both state chartered, with one located in Walterboro, SC and the other in Edisto Beach, SC. South State bank is a larger institution with significantly more branches than FFSC. Bank of Walterboro has the same number of branches as FFSC. Bank of Walterboro and South State Bank comprise 52 percent of total market share. FFSC comprises 17 percent of market share and Enterprise Bank of South Carolina comprises about 16 percent of market share.

Manufactured homes are popular within the AA. Particularly, singlewide, older manufactured homes are very prevalent and highly desired. Per FFSC policy, the bank does not lend on singlewide manufactured homes, and will only finance up to 75 percent on doublewides. Management noted that some of their competitors offer up to 100 percent financing on manufactured homes. With 22.45 percent of households living below poverty threshold, FFSC's 25 percent down payment requirement drives potential customers to competitors.

During our examination, we reviewed information from a representative of the Chamber of Commerce in the City of Walterboro, Colleton County regarding the educational needs of the community. According to the contact, there is a need for improved economic development through the attraction of new businesses and jobs. The contact expressed that the way to attain economic

development is through improved education and assistance for obtaining higher education. The contact noted that there are local community colleges and trade programs; however, individuals are unable to afford the tuition and other expenses associated with higher education and career development. This has resulted in a stagnant economy, and deterred industry expansion and job growth in the area. The contact suggested that local financial institutions could assist with the provision of education loans, or a scholarship program.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank’s overall lending performance is Satisfactory. This conclusion is based upon the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. All criteria of the specific lending tests are documented below.

**Loan-to-Deposit Ratio**

FFSC’s average LTD ratio is reasonable considering the bank’s size, financial condition, and the AA’s credit needs. Since the last CRA examination in March 2009, the bank’s quarterly average LTD ratio for the 25 quarters is 63.38 percent. In comparison, the quarterly average LTD ratio among banks of similar size is 79.96 percent. The bank has a low LTD ratio compared to peer institutions due to downsizing and closure of branches. The bank’s LTD ratio ranged from a high of 76.34 percent to a low of 54.18 percent. The peer average LTD ratios ranged from a high of 95.69 percent to a low of 67.06 percent. Management implemented a new loan growth strategy that reversed the negative trend. The LTD ratio is now trending upwards.

**Lending in Assessment Area**

FFSC originated a majority of its home loans inside its AA. During the evaluation period, 78 percent of the total number and 77 percent of the total volume of loans originated were inside the AA. Since the last CRA examination, the In/Out ratio declined considerably due to the closing of two branches during the review period, which changed the AA from Dorchester and Colleton Counties, to just Colleton County. The bank retained some of the loans made in Dorchester County during the review period. As the Dorchester County loans are no longer considered in the AA, the percentage of loans made within the AA is lower than before.

The following data table reflects FFSC’s home mortgage originations inside and outside of the AA from January 1, 2014 to December 31, 2015:

Table 3 - Concentration of Thrift Loans Originated In and Outside of the Assessment Area						
Loan Type	% Inside Area		% Outside Area		Total	
	#	\$(000)	#	\$(000)	#	\$(000)
Mortgage Loans	169	\$30,733	44	\$8,904	213	\$39,637

**Lending to Borrowers of Different Incomes**

FFSC’s distribution of loans in the AAs reflects reasonable penetration among borrowers of different income levels. Table 4 below shows the percentage of lending to borrowers of different income levels in the AA and compares it to the percentage of families in each income category. The percentage of mortgage loans to low-income borrowers (1.90 percent) is considerably lower than percentage of low-income families within the AA (24.90 percent). Similarly, the bank’s percentage of loans to moderate-income borrowers was below the percentage of moderate-income families in the AA. The percentage of mortgage loans to moderate-income borrowers (7.59 percent) is considerably lower than percentage of moderate-income families within the AA (16.71 percent).

In evaluating the bank’s lending activity, we considered family poverty rates as a mitigating factor, which would impact lending opportunities among low- and moderate-income borrowers. According to the 2010 U.S. Census data, 22.45 percent of families residing within the AA have incomes below the poverty level. Families below the poverty level may lack the financial resources to obtain mortgage loans.

We compared FFSC’s lending activity to borrowers of different income levels to the lending activity of other lenders in the AA subject to HMDA reporting requirements. The bank's percentage of loans to low-income borrowers is lower than the percentage of lending to low-income borrowers by other lenders. Similarly, the bank's distribution of loans to moderate-income borrowers was lower than the percentage of lending to moderate-income borrowers by other lenders. The bank’s ability to lend to low and moderate-income borrowers was largely affected by the high poverty rate and the local competition. As noted above, manufactured housing is a popular product, and the bank’s loan policy restricts 100 percent financing for this product type, while other local lenders allow it.

<b>Table 4 - Distribution of Thrift (Loan Type) Loans By Borrower Income Level in the Assessment Area</b>				
<b>Borrower Income Category</b>	<b>% of Loans</b>	<b>% of \$ Volume</b>	<b>% Family Distribution</b>	<b>% of Aggregate (or Peers)</b>
Low	1.90%	\$584	24.90%	9.92%
Moderate	7.59%	\$2,333	16.71%	15.28%
Middle	10.76%	\$3,307	19.31%	23.02%
Upper	79.75%	\$24,509	39.08%	51.79%
<b>Total # or \$</b>	<b>100.00%</b>	<b>\$30,733</b>	<b>100.00%</b>	<b>100.00%</b>

*Source 2014-2015 HMDA Data, 2014 Peer HMDA, and 2010 U.S. Census Data; Total excludes loan for which borrower income was not reported.*

**Geographic Distribution of Loans**

FFSC’s distribution of loans in the AAs reflects reasonable dispersion throughout the AA. We compared the bank’s geographic distribution of loans to Aggregate 2013 HMDA lending data. Table 5 compares the bank's distribution of loans to other lenders in the Colleton County AA, subject to HMDA reporting requirements. Peer lending activity within the moderate-income census tract was favorable to FFSC at 35.45 percent.

FFSC did not originate any loans in low-income census tracts, as there are no low-income census tracts in this AA. FFSC originated 22 loans in moderate-income census tracts. Three of the ten CTs within the AA are moderate-income CTs, and two of the three moderate-income CTs are contiguous to the CT where the branch is located.

A review of the branch locations of the bank’s competitors show that FFSC’s major competitors are also located in the same CT as FFSC’s main branch; however, the competitors make a larger percentage of loans in moderate-income census tracts. This was discussed with management, who noted that their competitors offer loan products with more liberal terms that they are unable and unwilling to offer.

<b>Table 5 - Distribution of Thrift (Loan Type) Loans By Census Tract Income Level in the Assessment Area</b>				
<b>Census Tract Income Category</b>	<b>% of Loans</b>	<b>% of \$ Volume</b>	<b>% Owner Occupied</b>	<b>% of Aggregate (or Peers)</b>
Low	0.00%	\$0	0.00%	0.00%
Moderate	13.92%	\$4,278	35.45%	28.78%
Middle	32.28%	\$9,921	57.53%	47.79%
Upper	53.80%	\$16,534	7.02%	23.43%
<b>Total # or \$</b>	<b>100.00%</b>	<b>\$30,733</b>	<b>100.00%</b>	<b>100.00%</b>

*Source 2014-2015 HMDA Data, 2014 Peer HMDA, and 2010 U.S. Census Data*

**Responses to Complaints**

During the evaluation period, FFSC did not receive any CRA-related complaints since the last evaluation related to their performance in helping to meet the credit needs of the AA.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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