

## **PUBLIC DISCLOSURE**

June 9, 2014

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

**Peoples Southern Bank  
620 Second Avenue North  
Clanton, Alabama 35045-3423**

**RSSD ID NUMBER: 601733**

**FEDERAL RESERVE BANK OF ATLANTA  
1000 Peachtree Street, N.E.  
Atlanta, Georgia 30309-4470**

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 the institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

Major factors supporting the institution's rating include:

- The bank's loan-to-deposit ratio is reasonable given the bank's asset size, financial condition, and assessment area credit needs.
- The geographic distribution of HMDA and commercial loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The bank originated a substantial majority of its HMDA and commercial loans inside the assessment area.
- The bank has not received any CRA-related complaints since the previous evaluation.

**SCOPE OF EXAMINATION**

The CRA performance evaluation assesses the bank's record of meeting the credit needs of its community, including low- and moderate-income neighborhoods, within the context of information such as asset size and financial condition of the institution, competitive factors, and the economic and demographic characteristics of its defined assessment area. This CRA performance review was based on the bank's lending performance in its assessment area using the Interagency Small Institution Examination Procedures. The rating was assessed using the following core criteria developed for evaluating CRA lending performance for small banks:

- Net Loan-to-Deposit Ratio
- Lending Inside the Assessment Area
- Lending to Borrowers of Different Incomes and Businesses of Different Sizes
- Geographic Distribution of Loans
- Responsiveness to complaints received regarding CRA activities, if applicable

The lending test evaluation included an analysis of loans reported through the Home Mortgage Disclosure Act (HMDA) and commercial loans originated from January 1, 2012 through December 31, 2013. For the purposes of the CRA, HMDA loans are those loans defined in Regulation C. The HMDA loan categories are home purchase, home refinance, home improvement, and multifamily loans. Commercial loans were also reviewed during this evaluation because they represent the bank's major product line. HMDA loans exceeded commercial loans by number of loans and slightly by dollar amount; therefore, HMDA lending was given more weight than commercial lending in evaluating the bank's lending test performance.

As part of this evaluation, community contacts were made with a local small business organization and a low-income housing organization in the assessment area; both are familiar with the economic and demographic characteristics in Chilton County. Information obtained from these contacts was used to establish a context for the communities in which the bank operates and to gather information on the bank's performance. Specific information obtained from the community contacts is included in the applicable section of the report. None of these contacts identified any unmet credit needs.

**DESCRIPTION OF INSTITUTION**

Peoples Southern Bank (Peoples) is a small community bank operating three offices in Chilton County, Alabama. Peoples is a wholly owned subsidiary of Peoples Southern Bancshares. Peoples is a full service bank that offers a wide variety of credit products to meet community credit needs.

Peoples complies with the requirements of CRA. No known legal impediments exist that would restrict the bank from meeting the credit needs of its assessment area. The bank received an “Outstanding” rating at its previous evaluation conducted by the Federal Reserve Bank of Atlanta dated April 6, 2009, under the Interagency Small Bank Examination Procedures.

Branch Offices

Peoples operates three branch offices, all within Chilton County. The main office is located in Clanton, Alabama; two other offices are located in South Clanton and Thorsby, Alabama. All three offices have ATMs and offer extended hours on Friday. The main office and the South Clanton office also offer Saturday banking hours via drive-thru facilities. Of its three branches, two branches, which include the main office, are located in moderate-income tracts and one branch is located in a middle-income tract. The bank has not opened or closed any branches since the previous examination.

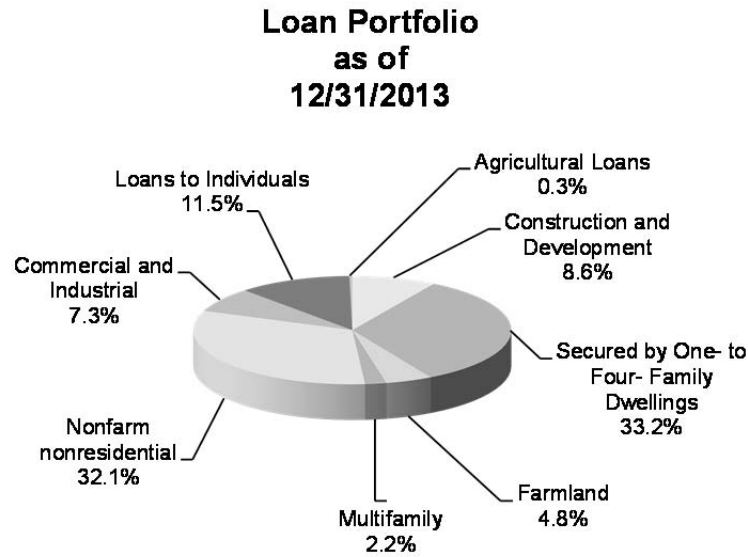
Loan Portfolio

According to the December 31, 2013 Report of Condition (ROC), the bank’s assets totaled \$152.3 million, an increase of approximately \$11.7 million since the bank’s last CRA evaluation conducted on April 6, 2009.

The following table and graphs show the composition of the loan portfolio according to the Consolidated Reports of Condition and Income.

COMPOSITION OF LOAN PORTFOLIO						
Loan Type	12/31/2013		12/31/2012		12/31/2011	
	\$ (000s)	Percent	\$ (000s)	Percent	\$ (000s)	Percent
Construction and Development	4,001	8.6%	4,515	8.8%	4,204	8.6%
Secured by One- to Four- Family Dwellings	15,475	33.2%	16,189	31.5%	16,583	33.8%
Other Real Estate: Farmland	2,220	4.8%	2,254	4.4%	1,999	4.1%
Multifamily	1,009	2.2%	994	1.9%	955	1.9%
Nonfarm nonresidential	14,960	32.1%	18,440	35.9%	16,780	34.2%
Commercial and Industrial	3,425	7.3%	3,448	6.7%	3,376	6.9%
Loans to Individuals	5,377	11.5%	5,211	10.2%	4,929	10.0%
Agricultural Loans	140	0.3%	287	0.6%	231	0.5%
<b>Total</b>	<b>\$46,607</b>	<b>100.00%</b>	<b>\$51,338</b>	<b>100.00%</b>	<b>\$49,057</b>	<b>100.00%</b>

\* This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.



As illustrated in the chart and table above, the bank’s loan portfolio as of December 31, 2013, consisted primarily of one-to-four family dwellings (33.2%), followed by non-farm nonresidential (32.1%) and loans to individuals (11.5%). The bank’s loan types by percentage did not experience any significant changes during the review period.

#### Credit Products

The bank offers a wide variety of credit products to meet community credit needs including consumer, commercial, agricultural, residential real estate, and home equity loans. The residential real estate portfolio is generally non-complex. Since the end of the last review period, the bank no longer sells mortgages on the secondary market. Also, the bank no longer offers adjustable-rate mortgages or loans with private mortgage insurance.

### **DESCRIPTION OF ASSESSMENT AREA**

#### Overview

The bank has defined its assessment area to include all of Chilton County, Alabama, which became part of the Birmingham Metropolitan Statistical Area (MSA) in 2004. Chilton County is approximately 45 miles south of Birmingham and 40 miles north of Montgomery, the state capital. The assessment area has not changed since the previous evaluation. Demographic data from the 2010 census was used to define the bank’s assessment area, which consists of nine census tracts; four tracts are moderate-income and five tracts, middle-income.

#### Population Information

According to the 2010 U.S. census data, the population of the bank’s assessment area was 43,643, which represented approximately 0.9 percent of the population of the state of Alabama at 4,779,736. The U.S. Census Bureau also showed that the population estimate of the bank’s assessment area was 43,951 by July 1, 2013. The figure represents slight growth of 0.7 percent for the assessment area, since 2010.

#### Income Characteristics

For purposes of classifying borrower income, this evaluation uses the Department of Housing and Urban Development’s (HUD) estimated 2012 and 2013 median family income for the relevant area. The following

table sets forth the estimated median family income for 2012 and 2013 for the Birmingham-Hoover, Alabama MSA. It also provides a breakdown of the estimated annual income based on income-level.

**Borrower Income Levels  
Birmingham-Hoover, AL MSA**

ACS Estimated Median Family Income		Low 0 - 49.99%	Moderate 50% - 79.99%	Middle 80% - 119.99%	Upper 120% - & above
<b>2012</b>	<b>\$62,800</b>	0 - \$31,399	\$31,400 - \$50,239	\$50,240 - \$75,359	\$75,360 - & above
<b>2013</b>	<b>\$57,100</b>	0 - \$28,549	\$28,550 - \$45,679	\$45,680 - \$68,519	\$68,520 - & above

The HUD estimated median family income for the Birmingham-Hoover, AL MSA in 2012 was \$62,800 and \$57,100 for 2013. According to the 2010 census data, there were 293,683 families in the MSA. Of those families, 22.0 percent were low-income, 17.1 percent were moderate-income, 19.7 percent were middle-income, and 41.0 percent were upper-income. Of the total families, 10.3 percent earned incomes below the poverty level.

The 2013 HUD estimated family income for Chilton County is much lower than for the MSA, at \$51,954. In the bank’s assessment area of Chilton County, there were 12,273 families. Of those families, 29.8 percent were low-income, 18.6 percent were moderate-income, 21.5 percent were middle-income, and 30.1 percent were upper-income. Of the total families, 14.4 percent earned incomes below the poverty level.

Housing Characteristics

According to the 2010 census data, there were 19,124 housing units in the Chilton assessment area. Of that number, 65.0 percent were owner occupied, 21.6 percent were rental units and 13.4 percent were vacant units. The median housing value in the assessment area was \$103,717, which is 13.4 percent lower than the median housing value for the state of Alabama at \$117,600. The median age of housing stock in the bank’s assessment area is 28 years compared to 30 years for the state of Alabama. The affordability ratio, defined as the median household income divided by the median housing value, is 38.1 percent for the bank’s assessment area compared to 35.6 percent for the state of Alabama. A higher ratio means the housing is considered more affordable while a lower ratio means the housing is considered less affordable.

Employment Statistics

In the bank’s assessment area, there are significant worker concentrations in numerous industries including federal, state, and local government; retail trade; manufacturing; healthcare and social assistance; and accommodation and food services.<sup>1</sup> Major employers include Johnson Controls (formerly CRH Group), Kumi Manufacturing, Wal-Mart, Georgia Pacific, Merchants Corporation, and West Fraser.<sup>2</sup>

The following table shows the unemployment rate for the bank’s assessment area and the state of Alabama. For both 2012 and 2013, unemployment rate for Chilton County and the Birmingham MSA was lower than the state of Alabama.

<sup>1</sup>Alabama Department of Industrial Relations, 2010 QCEW; Accessed on 6/5/2014. Available at <http://birminghambusinessalliance.com/economic-development/economic-development-data/chilton-county/>

<sup>2</sup> Chilton County Website; Accessed on 6/5/2014. Available at <http://chiltoncountyeconomicdevelopment.org>

### Unemployment Rates

Assessment Area: Chilton

Area	Years - Annualized	
	2012	2013
Birmingham MSA	6.2	5.7
Chilton Co.	6.4	5.8
<b>Alabama</b>	<b>7.1</b>	<b>6.5</b>

Not Seasonally Adjusted

#### Competition

The bank operates in a relatively competitive market. According to the FDIC Market Share Report as of June 30, 2013, there were 6 financial institutions operating 11 branches inside the assessment area. Peoples ranked 1<sup>st</sup> in deposit market share with \$128.7 million or 36.2 percent of total deposits. According to the 2013 HMDA Market Peer Report, which includes originations and purchases, Peoples ranked 2<sup>nd</sup> in HMDA lending with 8.3 percent market share. There were 20 financial institutions that originated at least 10 loans in the assessment area, and Regions Bank ranked 1<sup>st</sup> with 12.2 percent of the HMDA loans in Chilton County. The bank's competition comes mainly from large regional banks, community banks, and credit unions. Although the competition is challenging, it has not adversely affected the bank's ability to serve the credit needs of its assessment area.

#### Community Contacts

As part of the CRA examination, information was obtained from a local small business organization and from a low-income housing organization. According to the contacts, Chilton County has a shortage of affordable housing for factory employees working in the larger surrounding cities. The contact stated there was a waiting list for these individuals who need housing; however, he stated that turnover was relatively high as many workers migrated to surrounding cities.

According to the contacts, the local economy is improving as unemployment has declined below the state level; however, the growth rate remains very slow. Both contacts were satisfied with the perception and reputation of the bank regarding their relationship with the local community.

#### Assessment Area Demographics

The following table provides demographic characteristics of the bank's assessment area based on the 2010 U.S. Census data used to analyze the bank's CRA performance. Certain components of the data in the table are discussed in this evaluation as they apply to specific parts of the analysis.

### Assessment Area Demographics

Assessment Area: Chilton

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	3,654	29.8
Moderate-income	4	44.4	6,376	52.0	1,124	17.6	2,277	18.6
Middle-income	5	55.6	5,897	48.0	643	10.9	2,643	21.5
Upper-income	0	0.0	0	0.0	0	0.0	3,699	30.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>9</b>	<b>100.0</b>	<b>12,273</b>	<b>100.0</b>	<b>1,767</b>	<b>14.4</b>	<b>12,273</b>	<b>100.0</b>
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	9,637	6,413	51.6	66.5	2,070	21.5	1,154	12.0
Middle-income	9,487	6,022	48.4	63.5	2,058	21.7	1,407	14.8
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>19,124</b>	<b>12,435</b>	<b>100.0</b>	<b>65.0</b>	<b>4,128</b>	<b>21.6</b>	<b>2,561</b>	<b>13.4</b>
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	884	52.6	814	53.0	28	42.4	42	51.9
Middle-income	798	47.4	721	47.0	38	57.6	39	48.1
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>1,682</b>	<b>100.0</b>	<b>1,535</b>	<b>100.0</b>	<b>66</b>	<b>100.0</b>	<b>81</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>			<b>91.3</b>		<b>3.9</b>		<b>4.8</b>	

Based on 2010 ACS Information.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Overview

Peoples' overall performance rating is satisfactory. The review analyzed 179 HMDA loans and 71 commercial loans originated in the assessment area from January 1, 2012 to December 31, 2013. The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. A substantial majority of loans were originated inside the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and the distribution of borrowers reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. Performance context information, such as competition, demographic and economic conditions was also considered in the evaluation of the bank's lending performance.



Loan-to-Deposit Ratio

The bank’s net loan-to-deposit ratio (LTD) reflects reasonable responsiveness to meeting the overall assessment area credit needs. The bank’s average LTD ratio for the 16 quarters ending March 31, 2014, was 41.4 percent and is considered reasonable given the institution’s size, its mortgage lending practices, and assessment area credit needs. Historically, the bank’s LTD ratio has consistently been in the 50 percent range. Peoples’ LTD ratio was compared to the ratios of other financial institutions of similar asset size in the Birmingham MSA. The average LTD ratio during the same previous 16 quarters for these financial institutions was approximately 66.9 percent.

Assessment Area Concentration

The table below shows, by product type, the number and percentage of loans reviewed that were located inside and outside of the bank’s assessment areas.

**Lending Inside and Outside the Assessment Area**

Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Improvement	88	90.7	\$1,354	92.9	9	9.3	\$103	7.1
Home Purchase - Conventional	31	93.9	\$2,893	83.8	2	6.1	\$560	16.2
Refinancing	60	92.3	\$4,891	89.6	5	7.7	\$566	10.4
<b>Total HMDA related</b>	<b>179</b>	<b>91.8</b>	<b>\$9,138</b>	<b>88.1</b>	<b>16</b>	<b>8.2</b>	<b>\$1,229</b>	<b>11.9</b>
Commercial	71	91.0	\$8,267	86.3	7	9.0	\$1,307	13.7
<b>Total Comm. related</b>	<b>71</b>	<b>91.0</b>	<b>\$8,267</b>	<b>86.3</b>	<b>7</b>	<b>9.0</b>	<b>\$1,307</b>	<b>13.7</b>
<b>TOTAL LOANS</b>	<b>250</b>	<b>91.6</b>	<b>\$17,405</b>	<b>87.3</b>	<b>23</b>	<b>8.4</b>	<b>\$2,536</b>	<b>12.7</b>

The bank originated a substantial majority of its total loans to borrowers and businesses residing in or located within the bank’s assessment area. Over 91 percent of total loans are originated inside the bank’s assessment area. This indicates the bank’s willingness to originate loans that meet the credit needs of its assessment area.

Geographic Distribution of Loans

For this analysis, the geographic distribution of HMDA and commercial lending was compared with available demographic information; the distribution of HMDA lending was also compared to aggregate lending data. The bank’s assessment area does not include any low-income census tracts. Performance context issues including the economic climate, business strategies, and information from the community contact were also taken into consideration.

Considering all of these factors, Peoples Southern Bank’s overall geographic distribution of HMDA and commercial loans reflects reasonable dispersion throughout the assessment area.

Residential Real Estate (HMDA) Lending

The following table shows the geographic distribution of Peoples’ HMDA loans for 2012 and 2013 within its assessment area and also includes a comparison of the bank’s HMDA lending to the aggregate HMDA lenders within the assessment area for 2012. The HMDA aggregate lenders’ data are the combined total of lending activity reported by all lenders subject to the HMDA data reporting requirements in the assessment area.

**Geographic Distribution of HMDA Loans**

Assessment Area: Chilton

PRODUCT TYPE	Tract Income Levels	Bank Lending & Demographic Data Comparison 2013, 2012					Bank & Aggregate Lending Comparison 2012					
		Bank		Owner Occupied Units	Count		Dollar					
		Count	Dollar		Bank	Agg	Bank	Agg	Agg			
#	%	\$ (000s)	\$ %	%	#	%	%	\$ (000s)	\$ %	\$ %		
HOME PURCHASE	Low	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Moderate	10	32.3%	\$1,039	35.9%	51.6%	4	33.3%	49.1%	\$372	27.9%	45.1%
	Middle	21	67.7%	\$1,854	64.1%	48.4%	8	66.7%	50.9%	\$959	72.1%	54.9%
	Upper	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	<i>Total</i>	<i>31</i>	<i>100.0%</i>	<i>\$2,893</i>	<i>100.0%</i>	<i>100.0%</i>	<i>12</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$1,331</i>	<i>100.0%</i>	<i>100.0%</i>
REFINANCE	Low	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Moderate	29	48.3%	\$2,041	41.7%	51.6%	16	51.6%	48.5%	\$978	39.9%	46.4%
	Middle	31	51.7%	\$2,850	58.3%	48.4%	15	48.4%	51.5%	\$1,476	60.1%	53.6%
	Upper	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	<i>Total</i>	<i>60</i>	<i>100.0%</i>	<i>\$4,891</i>	<i>100.0%</i>	<i>100.0%</i>	<i>31</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$2,454</i>	<i>100.0%</i>	<i>100.0%</i>
HOME IMPROVEMENT	Low	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Moderate	31	35.2%	\$404	29.8%	51.6%	16	36.4%	45.0%	\$327	40.6%	49.9%
	Middle	57	64.8%	\$950	70.2%	48.4%	28	63.6%	55.0%	\$478	59.4%	50.1%
	Upper	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	<i>Total</i>	<i>88</i>	<i>100.0%</i>	<i>\$1,354</i>	<i>100.0%</i>	<i>100.0%</i>	<i>44</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$805</i>	<i>100.0%</i>	<i>100.0%</i>
MULTI FAMILY	Low	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Moderate	0	0.0%	\$0	0.0%	18.9%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Middle	0	0.0%	\$0	0.0%	81.1%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Upper	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	<i>Total</i>	<i>0</i>	<i>0.0%</i>	<i>\$0</i>	<i>0.0%</i>	<i>100.0%</i>	<i>0</i>	<i>0.0%</i>	<i>0.0%</i>	<i>\$0</i>	<i>0.0%</i>	<i>0.0%</i>
HMDA TOTALS	Low	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Moderate	70	39.1%	\$3,484	38.1%	51.6%	36	41.4%	48.4%	\$1,677	36.5%	46.1%
	Middle	109	60.9%	\$5,654	61.9%	48.4%	51	58.6%	51.6%	\$2,913	63.5%	53.9%
	Upper	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	<i>Total</i>	<i>179</i>	<i>100.0%</i>	<i>\$9,138</i>	<i>100.0%</i>	<i>100.0%</i>	<i>87</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$4,590</i>	<i>100.0%</i>	<i>100.0%</i>

Originations & Purchases

Based on 2010 ACS Boundaries.

The geographic distribution of HMDA lending reflects reasonable dispersion throughout the bank's assessment area. Of the 179 HMDA loans originated during the review period, 31 (17.3 percent) were home purchase loans, 60 (33.5 percent) were refinance loans, and 88 (49.2 percent) were home improvement loans. The table also includes a comparison of the bank's HMDA lending to the 2010 demographic information and to the 2012 aggregate HMDA lenders within the assessment area. Aggregate lending for 2013 data was not available at the time of this evaluation.

There are no low income tracts in the assessment area; the bank’s HMDA lending in moderate-income tracts, at 39.1 percent, was less than the percentage of owner-occupied units in these tracts at 51.6 percent. Also, the bank’s HMDA lending in moderate-income tracts in 2012 was 41.4 percent which was slightly less than the aggregate at 48.4 percent.

According to the 2010 census data, 66.5 percent of the housing in the assessment area was owner-occupied. Rental units accounted for 21.4 percent, and vacant units accounted for 12.0 percent of the assessment area’s total housing units. In discussions with bank management, they stated the bank faces competition from multiple larger regional banks, local community banks, and credit unions for HMDA loans. Also, because of the market downturn, the bank stopped selling loans on the secondary market, which decreased the bank’s volume of residential mortgage loan originations.

Commercial Lending

The following table shows the geographic distribution of commercial loans, originated from January 1, 2012 to December 31, 2013, in the Chilton assessment area and also includes a comparison of the bank’s commercial lending to the demographic data.

**Geographic Distribution of Commercial Loans**

Assessment Area: Chilton

Tract Income Levels	Bank Lending & Demographic Data Comparison				
	2013, 2012				
	Count		Bank Dollar		Small Businesses
	#	%	\$ (000s)	\$ %	%
Low	0	0.0%	\$0	0.0%	0.0%
Moderate	37	52.1%	\$4,100	49.6%	53.0%
Middle	34	47.9%	\$4,166	50.4%	47.0%
Upper	0	0.0%	\$0	0.0%	0.0%
Unknown	0	0.0%	\$0	0.0%	0.0%
Tr Unknown	0	0.0%	\$0	0.0%	
<i>Total</i>	<i>71</i>	<i>100.0%</i>	<i>\$8,267</i>	<i>100.0%</i>	<i>100.0%</i>

Originations & Purchases

Based on 2013 D&B information according to 2010 ACSBoundaries.

The geographic distribution of commercial loans reflects reasonable dispersion throughout the assessment area. Of the 71 commercial loans located in the assessment area, 52.1 percent were located in the moderate-income tracts, which is comparable to the 53.0 percent of the area’s businesses that are located in moderate-income census tracts.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

For this analysis, the distribution of HMDA and commercial lending by borrower income and business revenue size was compared with available demographic information; the distribution of HMDA lending was also compared to aggregate lending data.

Based on the following analysis, the overall distribution of the bank's HMDA and commercial loans by borrower income and business revenue reflects reasonable penetration throughout the bank's assessment area and does not reveal any unexplained gaps in lending patterns. In the analysis, performance context issues were also considered.

*Residential Real Estate (HMDA) Lending*

The following table shows the distribution of the bank's HMDA loans by the income level of the borrowers.

**Borrower Distribution of HMDA Loans**

Assessment Area: Chilton

PRODUCT TYPE	Borrower Income Levels	Bank Lending & Demographic Data Comparison 2013, 2012					Bank & Aggregate Lending Comparison 2012					
		Bank		Families by Family Income		Count			Dollar			
		Count				Bank	Agg		Bank	Agg		
		#	%	\$ (000s)	\$ %	%	#	%	%	\$(000s)	\$ %	\$ %
HOME PURCHASE	Low	2	6.5%	\$68	2.4%	29.8%	1	8.3%	23.9%	\$20	1.5%	16.0%
	Moderate	7	22.6%	\$294	10.2%	18.6%	3	25.0%	29.5%	\$149	11.2%	26.2%
	Middle	6	19.4%	\$560	19.4%	21.5%	3	25.0%	20.6%	\$303	22.8%	22.2%
	Upper	16	51.6%	\$1,971	68.1%	30.1%	5	41.7%	16.3%	\$859	64.5%	25.2%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	9.7%	\$0	0.0%	10.3%
	<i>Total</i>	<i>31</i>	<i>100.0%</i>	<i>\$2,893</i>	<i>100.0%</i>	<i>100.0%</i>	<i>12</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$1,331</i>	<i>100.0%</i>	<i>100.0%</i>
REFINANCE	Low	4	6.7%	\$37	0.8%	29.8%	1	3.2%	9.5%	\$9	0.4%	5.5%
	Moderate	9	15.0%	\$886	18.1%	18.6%	5	16.1%	16.9%	\$553	22.5%	14.7%
	Middle	16	26.7%	\$1,199	24.5%	21.5%	8	25.8%	21.5%	\$664	27.1%	19.8%
	Upper	27	45.0%	\$2,509	51.3%	30.1%	15	48.4%	33.3%	\$1,182	48.2%	40.2%
	Unknown	4	6.7%	\$260	5.3%	0.0%	2	6.5%	18.8%	\$46	1.9%	19.9%
	<i>Total</i>	<i>60</i>	<i>100.0%</i>	<i>\$4,891</i>	<i>100.0%</i>	<i>100.0%</i>	<i>31</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$2,454</i>	<i>100.0%</i>	<i>100.0%</i>
HOME IMPROVEMENT	Low	19	21.6%	\$235	17.4%	29.8%	10	22.7%	22.0%	\$158	19.6%	15.2%
	Moderate	19	21.6%	\$163	12.0%	18.6%	9	20.5%	22.0%	\$120	14.9%	20.1%
	Middle	29	33.0%	\$522	38.6%	21.5%	14	31.8%	34.0%	\$275	34.2%	39.7%
	Upper	21	23.9%	\$434	32.1%	30.1%	11	25.0%	21.0%	\$252	31.3%	22.8%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	1.0%	\$0	0.0%	2.2%
	<i>Total</i>	<i>88</i>	<i>100.0%</i>	<i>\$1,354</i>	<i>100.0%</i>	<i>100.0%</i>	<i>44</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$805</i>	<i>100.0%</i>	<i>100.0%</i>
MULTIFAMILY	Low	0	0.0%	\$0	0.0%	29.8%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Moderate	0	0.0%	\$0	0.0%	18.6%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Middle	0	0.0%	\$0	0.0%	21.5%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Upper	0	0.0%	\$0	0.0%	30.1%	0	0.0%	0.0%	\$0	0.0%	0.0%
	Unknown	0	0.0%	\$0	0.0%	0.0%	0	0.0%	0.0%	\$0	0.0%	0.0%
	<i>Total</i>	<i>0</i>	<i>0.0%</i>	<i>\$0</i>	<i>0.0%</i>	<i>100.0%</i>	<i>0</i>	<i>0.0%</i>	<i>0.0%</i>	<i>\$0</i>	<i>0.0%</i>	<i>0.0%</i>
HMDA TOTALS	Low	25	14.0%	\$340	3.7%	29.8%	12	13.8%	15.3%	\$187	4.1%	8.9%
	Moderate	35	19.6%	\$1,343	14.7%	18.6%	17	19.5%	21.5%	\$822	17.9%	18.2%
	Middle	51	28.5%	\$2,281	25.0%	21.5%	25	28.7%	22.3%	\$1,242	27.1%	20.9%
	Upper	64	35.8%	\$4,914	53.8%	30.1%	31	35.6%	26.6%	\$2,293	50.0%	35.3%
	Unknown	4	2.2%	\$260	2.8%	0.0%	2	2.3%	14.3%	\$46	1.0%	16.7%
	<i>Total</i>	<i>179</i>	<i>100.0%</i>	<i>\$9,138</i>	<i>100.0%</i>	<i>100.0%</i>	<i>87</i>	<i>100.0%</i>	<i>100.0%</i>	<i>\$4,590</i>	<i>100.0%</i>	<i>100.0%</i>

Originations & Purchases  
Based on 2010 ACS Data

HMDA lending by borrower income in the assessment area is considered reasonable when compared to the demographic characteristics of the community, as well as the performance of aggregate HMDA lenders with loan originations or purchases in the assessment area. The volume of the specific loan products was also considered.

Peoples originated 25 HMDA loans (14.0 percent) to low-income borrowers during the review period, which is less than 29.8 percent of low-income borrowers in the assessment area. According to the aggregate comparison in 2012, the bank originated 13.8 percent of loans to low-income borrowers, which is less than the aggregate performance at 15.3 percent.

The bank originated 35 HMDA loans (19.6 percent) to moderate-income borrowers during the review period, which is slightly above the percentage of moderate-income borrowers in the assessment area, at 18.6 percent. According to the aggregate comparison, in 2012 the bank originated 19.5 percent of its loans to moderate-income borrowers, which is below the aggregate performance at 21.5 percent. This level of lending to low- and moderate-income borrowers is considered reasonable given performance context issues.

Commercial Loans

For this analysis, the distribution of commercial lending across business revenue size was compared with available demographic information. The following table shows, by loan size and business revenue, the number and dollar volume of the commercial loans originated within the assessment area for the review period.

**Commercial Loans by Business Revenue & Loan Size**

Assessment Area: Chilton

Business Revenue & Loan Size		Bank Lending & Demographic Data Comparison				
		2013, 2012				
		Count		Bank \$ (000s)		Total Businesses
		#	%	\$	%	%
BUSINESS REVENUE	\$1million or Less	53	74.6%	\$5,308	64.2%	91.3%
	Over \$1 Million	18	25.4%	\$2,958	35.8%	3.9%
	Total Rev. available	71	100.0%	\$8,267	100.0%	95.2%
	Rev. Not Known	0	0.0%	\$0	0.0%	4.8%
	Total	71	100.0%	\$8,267	100.0%	100.0%
LOAN SIZE	\$100,000 or Less	39	54.9%	\$1,825	22.1%	
	\$100,001 - \$250,000	24	33.8%	\$3,927	47.5%	
	\$250,001 - \$1 Million	8	11.3%	\$2,515	30.4%	
	Over \$1 Million	0	0.0%	\$0	0.0%	
	Total	71	100.0%	\$8,267	100.0%	
LOAN SIZE & Rev \$1 Mill or Less	\$100,000 or Less	34	64.2%	\$1,542	29.1%	
	\$100,001 - \$250,000	16	30.2%	\$2,796	52.7%	
	\$250,001 - \$1 Million	3	5.7%	\$970	18.3%	
	Over \$1 Million	0	0.0%	\$0	0.0%	
	Total	53	100.0%	\$5,308	100.0%	

Originations & Purchases

Based on 2013 D&B information according to 2010 ACSData.

According to Dun & Bradstreet data, 91.3 percent of businesses in the assessment area have revenues of \$1 million or less. As the table indicates, the bank originated 74.6 percent of commercial loans to entities with gross annual revenues of \$1 million or less, which was less than the percentage of businesses in the assessment area. However, of the loans made to businesses with revenues of \$1 million or less, 64.2 percent of commercial loans were in amounts of \$100,000 or less and 30.2 percent were in amounts of \$250,000 or less, indicating the bank's willingness to make loans in smaller dollar amounts to meet the needs of small businesses in the assessment area. Overall, People Southern Bank's commercial lending by business revenue reflects reasonable dispersion throughout the assessment area.

### **RESPONSE TO SUBSTANTIATED COMPLAINTS**

The bank has not received any CRA-related complaints since the previous evaluation.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of prohibited discrimination or the use of other illegal credit practices was noted during the examination. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.

**APPENDIX A**

<b>SCOPE OF EXAMINATION</b>			
<b>TIME PERIOD REVIEWED</b>			
January 1, 2012 to December 31, 2013			
<b>FINANCIAL INSTITUTION</b>			<b>PRODUCTS REVIEWED</b>
Peoples Southern Bank, Clanton, Alabama			HMDA & Commercial loans
<b>AFFILIATE(S)</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>	
N/A			
<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<i>ASSESSMENT AREA</i>	<i>TYPE OF EXAMINATION</i>	<i>BRANCHES VISITED</i>	<i>OTHER INFORMATION</i>
Chilton County, Alabama	Full-scope review	Thorsby Office 20688 Highway 31, Thorsby, Alabama 35171	N/A



**APPENDIX B – DEFINITIONS AND GENERAL INFORMATION**

**Definitions**

ATM -	Automated Teller Machine
CDC -	Community Development Corporation
CDFI -	Community Development Financial Institution
CRA -	Community Reinvestment Act (Regulation BB)
FDIC -	Federal Deposit Insurance Corporation
FFIEC -	Federal Financial Institutions Examination Council
HMDA -	Home Mortgage Disclosure Act (Regulation C)
HUD -	Department of Housing and Urban Development
LMI -	Low- and Moderate-Income
LTD -	Loan-to-Deposit
LTV -	Loan-to-Value Ratio
MD -	Metropolitan Division
MSA -	Metropolitan Statistical Area
OMB -	Office of Management and Budget
REIS -	Regional Economic Information System
SBA -	Small Business Administration
USDA -	United States Department of Agriculture

**Rounding Convention**

Because the percentages presented in tables were rounded to the nearest tenth in most cases, some columns may not total exactly 100 percent.

**APPENDIX B – DEFINITIONS AND GENERAL INFORMATION (Continued)**

**General Information**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Peoples Southern Bank** prepared by the **Federal Reserve Bank of Atlanta**, the institution's supervisory agency, as of **June 9, 2014**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

## APPENDIX C – GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multi-family rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- I. Low-or moderate-income geographies;
- II. Designated disaster areas; or
- III. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Effective January 19, 2010, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation revised the definition of community development to include loans, investments, and services by financial institutions that-

- I. Support, enable or facilitate projects or activities that meet the "eligible uses" criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA), Public Law 110-289, 122 Stat. 2654, as amended, and are conducted in designated target areas identified in plans approved by the United States Department of Housing and Urban Development in accordance with the Neighborhood Stabilization Program (NSP);
- II. Are provided no later than two years after the last date funds appropriated for the NSP are required to be spent by grantees; and
- III. Benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or areas outside the bank's assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

## APPENDIX C – GLOSSARY (Continued)

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

**Full-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

## APPENDIX C – GLOSSARY (Continued)

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.