

PUBLIC DISCLOSURE

March 8, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Southern Bank Company
Certificate Number: 29731

221 South Sixth Street
Gadsden, Alabama 35901

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Atlanta Regional Office

10 10th Street NE, Suite 800
Atlanta, Georgia 30309-3849

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.

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INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following factors support the rating.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment areas' credit needs.
- The bank made a majority of its small business and home mortgage loans in its assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration of loans among businesses of different sizes and individuals of different income levels (including low- and moderate-income).
- The bank has not received any CRA-related complaints since the previous evaluation. Therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

The Southern Bank Company is a small commercial bank headquartered in Gadsden, Alabama. The Southern Banc Company, Inc., a one-bank holding company also located in Gadsden, Alabama, owns the bank. The bank's previous CRA rating at the FDIC's February 9, 2015 Performance Evaluation was satisfactory, based on Interagency Small Institutions Examination Procedures.

The bank's primary business focus is commercial loans. At the previous evaluation, the bank's primary business focus was residential loans.

In addition to the main office, there are three branches located in Albertville, Guntersville, and Centre, Alabama. No offices were opened or closed since the previous evaluation.

The Southern Bank Company offers a variety of loan and deposit products and services. Loan products include commercial, residential, agricultural, and consumer loans. The bank also offers lease financing receivables. Deposit products include checking, savings, money market accounts, and certificates of deposit. Although the bank does not own any automatic teller machines (ATMs), it belongs to a network of ATMs. Alternative systems for delivering retail banking services are electronic banking, mobile banking, online banking, and telephone banking.

As of December 31, 2020, assets totaled approximately \$112 million, loans totaled approximately \$58 million, and deposits totaled approximately \$93 million. The following table presents the loan portfolio distribution as of December 31, 2020.

Loan Portfolio Distribution as of December 31, 2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	2,687	4.6%
Secured by Farmland	628	1.1%
Secured by 1-4 Family Residential Properties	9,884	17.1%
Secured by Multi-family (5 or more) Residential Properties	4,786	8.3%
Secured by Non-farm Non-Residential Properties	13,940	24.1%
Total Real Estate Loans	31,925	55.2%
Commercial and Industrial Loans	21,309	36.9%
Agricultural Production and Other Loans to Farmers	73	0.1%
Consumer	713	1.2%
Obligations of States and Political Subdivisions in the United States	-	0.0%
Other Loans	-	
Lease Financing Receivables (net of unearned income)	3,791	6.6%
Less: Unearned Income	0	0.0%
Total Loans	57,811	100.0%
<i>Source: Call Report. Due to rounding, total may not equal 100.0 percent.</i>		

Examiners did not identify any financial, legal, or other impediments that affected the bank’s ability to meet its assessment areas’ credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. The bank defined two assessment areas. The Non-Metropolitan Statistical Area (NMSA) assessment area is all of Cherokee and Marshall Counties, Alabama. The Metropolitan Statistical Area (MSA) assessment area is the Gadsden, Alabama MSA, which is Etowah County, Alabama. The assessment areas have not changed since the previous evaluation. Please refer to each individual assessment area section for additional information, including economic and demographic data, competition information, community contacts, credit needs, and conclusions on performance criteria.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated February 9, 2015 to the current evaluation dated March 8, 2021. Examiners conducted full-scope reviews on both assessment areas and weighted both assessment areas equally. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank’s CRA performance.

The review period included a time when a national emergency designation was in effect due to the COVID-19 pandemic that began on March 1, 2020, and remained in effect as of the evaluation date. Although the pandemic did not affect the bank's ability to meet assessment area credit needs, the pandemic nonetheless affected borrowers. According to bank management, the COVID-19 pandemic froze the lending market for most of the year 2020 because most businesses did not borrow other than through the Small Business Administration's Paycheck Protection Program. In addition, demand for residential and consumer loans was low because of uncertainty surrounding employment. Although the bank was able to lend, the pandemic diminished business and consumer loan demand. It is noted that in 2020, the bank originated 23 PPP loans totaling \$990,000, most of which were originated to businesses inside its assessment areas.

Activities Reviewed

Based on The Southern Bank Company's December 31, 2020 loan portfolio distribution, the bank's dominant loan category is commercial loans at 61.0 percent, followed by residential loans at 17.1 percent of the loan portfolio. Based on lending in the last calendar year, the bank's dominant loan product is commercial loans at 32.9 percent of the dollar amount and 39.5 percent of the number followed by residential loans at 39.3 percent of the dollar amount and 17.8 percent of the number. Because farm loans represented 1.6 percent of the dollar amount of loans and 0.8 percent of the number of loans, examiners did not analyze farm loans. Examiners did not analyze consumer loans because they also do not represent a major product line.

The determination of activities to review considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Small business loans contributed more weight to overall conclusions due to their larger dollar volume when compared to home mortgage lending during the review period. The following table presents loans originated in 2020 by loan category.

Loans Originated				
Loan Category	\$(000s)	%	#	%
Construction and Land Development	3,298	23.5	16	12.9
Secured by Farmland	0	0.0	0	0.0
1-4 Family Residential	2,380	17.0	18	14.6
Multifamily Residential	3,134	22.3	4	3.2
Commercial Real Estate	1,805	12.9	6	4.8
Commercial and Industrial	2,804	20.0	43	34.7
Agricultural	230	1.6	1	0.8
Consumer	380	2.7	36	29.0
Other Loans	0	0.0	0	0.0
Gross Loans	14,031	100.0	124	100.0
<i>Source: Bank Data</i>				

During the review period, the greatest percent change in total loans occurred in commercial and industrial loans, which reflects the bank's change in business focus from residential loans to commercial loans.

Examiners selected the universe of small business loans originated during the period from January 1, 2020 through December 31, 2020 to analyze. The universe was considered representative of the bank's lending performance during the entire evaluation period. Of the 49 business loans originated totaling \$4.6 million during this period, 48 loans totaling \$3.5 million met the definition of small business loans. Dun & Bradstreet (D&B) Corporation's business demographic data for 2020 provided a standard of comparison for small business loans.

In addition, examiners selected the universe of home mortgage loans originated during the period from January 1, 2019 through December 31, 2020 to analyze. The universe was considered representative of the bank's lending performance during the entire evaluation period. The bank originated or purchased 32 home mortgage loans totaling \$4.4 million in 2019 and 18 home mortgage loans totaling \$2.4 million in 2020. Examiners did not identify any trends during 2019 and 2020 that materially affected conclusions. The bank is no longer required to report its home mortgage loans under the Home Mortgage Disclosure Act. This evaluation presents bank information for 2019 and 2020. Data from the 2015 American Community Survey (ACS) provided standards of comparison for home mortgage loans.

Examiners reviewed the number and dollar volume of small business and home mortgage loans. Although the following loan analyses present the number and dollar volume of loans, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Southern Bank Company demonstrated satisfactory performance under the Lending Test. The following analyses support this performance conclusion.

Loan-to-Deposit Ratio

The Loan-to-Deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment areas' credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 71.4 percent over the past 24 calendar quarters from March 31, 2015 to December 31, 2020. The LTD ratio ranged from a low of 55.1 percent as of June 30, 2020 to a high of 91.5 percent as of March 31, 2018.

To evaluate reasonableness, examiners usually compare a bank's average LTD ratio to the average LTD ratios of similarly situated banks based on geographic location, asset size, and predominant loan type. There is one other bank headquartered in the Gadsden MSA. However, the other bank's asset size is three times the asset size of The Southern Bank Company. Therefore, the two banks are not considered to be similarly situated based on asset size. Consequently, examiners compared The Southern Bank Company's LTD ratio to Uniform Bank Performance Report (UBPR) peer bank data.

The Southern Bank Company's peer group, as defined by the UBPR, consists of 334 insured commercial banks having assets between \$100 million and \$300 million, with three or more full

service banking offices and located in a metropolitan statistical area. The UBPR peer group’s LTD ratio averaged 71.6 percent over the past 24 calendar quarters. The Southern Bank Company’s LTD ratio averaged 71.4 percent for the same time period, which is comparable to the peer group’s average LTD ratio. .

The bank’s LTD ratio has been on an overall upward trend over the past 24 calendar quarters, starting out at 59.5 percent on March 31, 2015 and increasing to 61.2 percent on December 31, 2020. This reflects an overall growth rate of 3.0 percent in the LTD ratio.

Assessment Area Concentration

Examiners determined that The Southern Bank Company made a majority of its home mortgage and small business loans, by number and dollar volume, inside the assessment areas. The following table presents the assessment areas concentration analysis.

Lending Inside and Outside the Assessment Areas										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	25	78.1	7	21.9	32	2,118	47.8	2,310	52.2	4,428
2020	13	72.2	5	27.8	18	1,622	68.1	758	31.9	2,380
Subtotal	38	76.0	12	24.0	50	3,740	54.9	3,068	45.1	6,808
Small Business	31	64.6	17	35.4	48	2,067	58.4	1,475	41.6	3,542
Total	69	70.4	29	29.6	98	5,807	57.1	4,543	43.9	10,350

Source: Bank Data. Due to rounding, totals may not equal 100.0 percent.

Geographic Distribution

Overall, the geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the assessment areas. The bank’s reasonable performance of small business and home mortgage lending supports this conclusion. The bank’s performance was consistent throughout the assessment areas. Examiners focused on the percentage of loans, by number, originated in low- and moderate-income census tracts.

Borrower Profile

Overall, the borrower distribution of small business and home mortgage loans reflects reasonable penetration throughout the assessment areas. The bank’s reasonable performance of small business and home mortgage lending supports this conclusion. The bank’s performance was consistent throughout the assessment areas. Examiners focused on the percentage of loans, by number, originated in low- and moderate-income census tracts.

Response to Complaints

The bank has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

GADSDEN MSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE GADSDEN MSA ASSESSMENT AREA

This assessment area is comprised of all 30 census tracts located in the Gadsden MSA. The bank’s main office in Gadsden is located in this assessment area. The following table presents the branch and ATM geographic distribution.

Branch and ATM Distribution by Geography Income Level												
Assessment Area: Gadsden MSA												
Tract Income Level	Census Tracts		Population		Branches		ATMs		Open Branches		Closed Branches	
	#	%	#	%	#	%	#	%	#	%	#	%
Low	3	10.0	6,661	6.4	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	10	33.3	23,864	23.0	0	0.0	0	0.0	0	0.0	0	0.0
Middle	12	40.0	45,093	43.5	1	100.0	0	0.0	1	100.0	0	0.0
Upper	5	16.7	28,148	27.1	0	0.0	0	0.0	0	0.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Totals	30	100.0	103,766	100.0	1	100.0	0	100.0	1	100.0	0	100.0

Source: 2015 ACS & Bank Data. Due to rounding, totals may not equal 100.0%

Economic and Demographic Data

Since the previous evaluation, the population decreased by 0.6 percent. The median housing value is 1.9 times the median family income. The following table presents unemployment information from the U.S. Bureau of Labor Statistics.

	United States	Alabama	Gadsden MSA
Annual 2019	3.7	3.0	3.3
Annual 2020	8.1	5.9	Not Available

According to the Alabama Department of Labor, the largest employers in the Gadsden MSA are Gadsden Regional Medical Center (Hospital) and Goodyear Tire and Rubber Company (Tire Manufacturer), both of which have 1,000 to 4,999 employees.

The following table presents demographic information.

Demographic Information of the Assessment Area						
Assessment Area: Gadsden MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	30	10.0	33.3	40.0	16.7	0.0
Population by Geography	103,766	6.4	23.0	43.5	27.1	0.0
Housing Units by Geography	47,500	7.3	24.4	43.0	25.3	0.0
Owner-Occupied Units by Geography	28,472	4.0	19.7	43.5	32.9	0.0
Occupied Rental Units by Geography	11,427	13.4	30.0	43.2	13.5	0.0
Vacant Units by Geography	7,601	10.4	33.8	41.2	14.6	0.0
Businesses by Geography	5,584	4.9	21.0	47.2	26.8	0.0
Farms by Geography	183	1.1	14.2	49.2	35.5	0.0
Family Distribution by Income Level	27,595	24.6	16.1	19.2	40.1	0.0
Household Distribution by Income Level	39,899	24.9	17.0	14.8	43.4	0.0
Median Family Income MSA - 23460 Gadsden, AL MSA		\$51,104	Median Housing Value			\$98,009
			Median Gross Rent			\$616
			Families Below Poverty Level			15.4%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to D&B data, there were 5,584 non-farm businesses located in the Gadsden MSA that reported the following GARs:

- 80.7 percent reported \$1 million or less,
- 5.5 percent reported more than \$1 million, and
- 13.8 percent did not report GARs.

The analysis of small business loans for the Borrower Profile criterion compares the distribution of businesses by reported GAR level.

According to the Standard Industrial Classification system, the three dominant industries were service industries at 35.8 percent, followed by non-classifiable establishments at 18.5 percent, followed by retail trade at 15.3 percent. In addition, 57.6 percent of assessment area businesses reported four or fewer employees, and 85.8 percent reported operating from a single location.

The analysis of home mortgage loans for the Borrower Profile criterion uses the 2019 and 2020 FFIEC-estimated median family income levels to determine income categories. The following table presents the median family incomes and low-, moderate-, middle-, and upper-income categories and ranges.

Median Family Income Ranges – Gadsden MSA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Gadsden, AL MSA Median Family Income (23460)				
2019 (\$57,100)	<\$28,550	\$28,550 to <\$45,680	\$45,680 to <\$68,520	≥\$68,520
2020 (\$65,000)	<\$32,500	\$32,500 to <\$52,000	\$52,000 to <\$78,000	≥\$78,000
<i>Source: FFIEC</i>				

Competition

The Gadsden MSA assessment area is moderately competitive in the market for deposit services. According to FDIC June 30, 2020 Deposit Market Share data, there were 13 FDIC-insured institutions operating 24 banking offices in the Gadsden MSA. Of these institutions, The Southern Bank Company ranked 10th with a 3.1 percent deposit market share.

The bank was not required to collect or report small business loan data, and did not elect to do so. Therefore, the analysis of small business loans under the Lending Test does not include comparisons against aggregate data. However, aggregate data reflects the level of demand and competition for small business loans. Therefore, aggregate data is included in this section for informational purposes only. Aggregate small business lending data for 2019 showed that 68 lenders reported 1,461 small business loans in the Gadsden MSA, which indicated a moderate degree of competition. Aggregate small business lending data was not yet available for 2020.

The bank was not required to collect or report home mortgage loan data, and did not elect to do so. Therefore, the analysis of home mortgage loans under the Lending Test does not include comparisons against aggregate data. However, aggregate data reflects the level of demand and competition for home mortgage loans. Therefore, aggregate data is included in this section for informational purposes only. Aggregate home mortgage lending data for 2019 showed that 180 lenders reported 2,397 home mortgage loans in the Gadsden MSA, which indicated a high degree of competition. Aggregate home mortgage lending data was not yet available for 2020.

Community Contact(s)

As part of the evaluation process, examiners contact third parties who are active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions respond to these needs and what credit and community development opportunities are available. The previously discussed Marshall County community contact also serves the Gadsden MSA.

Credit Needs

Considering information from the community contact, bank management, demographic data, and economic data, examiners determined that small business and home mortgage loans represent primary credit needs in the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE GADSDEN MSA ASSESSMENT AREA

LENDING TEST

Overall, The Southern Bank Company demonstrated satisfactory performance under the Lending Test. As previously mentioned, the bank faces a high level of competition in this area and loan demand was diminished during the COVID-19 pandemic.

Geographic Distribution

The geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the Gadsden MSA assessment area. The bank’s reasonable performance in small business and home mortgage lending supports this conclusion. Examiners focused on the percentage of loans, by number, in low- and moderate-income census tracts.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. The following table shows that the bank did not originate any small business loans in low-income census tracts; however, its lending in moderate-income census tracts was comparable to business demographics.

Geographic Distribution of Small Business Loans in the Gadsden MSA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	4.9	0	0.0	0	0.0
Moderate	21.0	4	22.2	127	9.2
Middle	47.2	7	38.9	395	28.7
Upper	26.8	7	38.9	855	62.1
N/A	0.0	0	0.0	0	0.0
Total	100.0	18	100.0	1,377	100.0
<i>Source: 2020 D&B Data; Bank Records; Due to rounding, totals may not equal 100.0 percent.</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table shows that the bank’s home mortgage lending performance in low-income census tracts was significantly higher than demographic data in 2019 and significantly lower than demographic data in 2020. The bank’s home mortgage lending performance in moderate-income census tracts was comparable to demographic data in 2019 and 2020.

Geographic Distribution of Home Mortgage Loans in the Gadsden MSA Assessment Area					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low					
2019	4.0	1	7.2	150	10.3
2020	4.0	0	0.0	0	0.0
Moderate					
2019	19.7	2	14.3	53	3.7
2020	19.7	2	22.2	59	4.2
Middle					
2019	43.5	3	21.4	115	7.9
2020	43.5	2	22.2	265	18.9
Upper					
2019	32.9	8	57.1	1,135	78.1
2020	32.9	5	55.6	1,076	76.9
Totals					
2019	100.0	14	100.0	1,453	100.0
2020	100.0	9	100.0	1,400	100.0

Source: 2015 ACS Data; Bank Data. Due to rounding, totals may not equal 100.0 percent.

Borrower Profile

The borrower profile distribution of small business and home mortgage loans reflects reasonable penetration throughout this assessment area. The bank's reasonable performance in small business lending and home mortgage lending supports this conclusion. Examiners focused on the percentage of loans, by number, to businesses with GAR of \$1 million or less and low- and moderate-income borrowers.

Small Business Loans

The borrower profile distribution of small business loans reflects reasonable penetration among businesses of different sizes. The following table shows that the bank's performance in lending to small businesses is comparable to business demographic data and reflects reasonable performance.

Distribution of Small Business Loans by Gross Annual Revenue Category in the Gadsden MSA Assessment Area					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	80.7	14	77.8	1,082	78.6
> \$1,000,000	5.5	4	22.2	295	21.4
Revenue Not Available	13.8	0	0.0	0	0.0
Total	100.0	18	100.0	1,377	100.0

Source: 2020 D&B Data; Bank Data

Home Mortgage Loans

The borrower profile distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels. The following table shows that the bank’s performance in lending to low-income borrowers was significantly lower than demographic data in 2019 and 2020. However, 15.4 percent of families in the Gadsden MSA are below the poverty level and would likely not be able to afford a mortgage loan. The bank’s performance in lending to moderate-income borrowers was significantly lower than demographic data in 2019 and comparable to demographic data in 2020.

Distribution of Home Mortgage Loans by Borrower Income Level – Gadsden MSA					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low					
2019	24.6	0	0.0	0	0.0
2020	24.6	0	0.0	0	0.0
Moderate					
2019	16.1	1	7.2	20	1.4
2020	16.1	1	11.1	3	0.2
Middle					
2019	19.2	2	14.3	31	2.1
2020	19.2	1	11.1	35	2.5
Upper					
2019	40.1	3	21.4	825	56.8
2020	40.1	4	44.4	789	56.4
Income Not Available					
2019	0.0	8	57.1	577	39.7
2020	0.0	3	33.3	573	40.9
Total					
2019	100.0	14	100.0	1,453	100.0
2020	100.0	9	100.0	1,400	100.0

Source: 2015 ACS Data; Bank Data. Due to rounding, totals may not equal 100.0 percent.

CHEROKEE AND MARSHALL COUNTIES NMSA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE CHEROKEE AND MARSHALL COUNTIES NMSA ASSESSMENT AREA

This assessment area is comprised of all 24 census tracts in the Cherokee and Marshall Counties NMSA. The bank’s Albertville, Guntersville, and Centre branches are located in this assessment area. The following table presents the branch distribution.

Branch and ATM Distribution by Geography Income Level												
Assessment Area: NMSA – Cherokee and Marshall Counties												
Tract Income Level	Census Tracts		Population		Branches		ATMs		Open Branches		Closed Branches	
	#	%	#	%	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	3	12.5	15,730	13.1	0	0.0	0	0.0	0	0.0	0	0.0
Middle	13	54.2	66,329	55.1	3	100.0	0	0.0	3	100.0	0	0.0
Upper	8	33.3	38,267	31.8	0	0.0	0	0.0	0	0.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Totals	24	100.0	120,326	100.0	0	100.0	0	100.0	3	100.0	0	100.0

Source: 2015 ACS & Bank Data. Due to rounding, totals may not equal 100.0%

Economic and Demographic Data

Since the previous evaluation, this assessment area’s population increased by 29.4 percent and the percent of families with incomes below the poverty level increased by 2.0 percent. The median housing value is 2.5 times the median family income. The following table presents unemployment information from the U.S. Bureau of Labor Statistics.

	United States	Alabama	Cherokee County	Marshall County
Annual 2019	3.7	3.0	2.9	2.5
Annual 2020	8.1	5.9	Not Available	Not Available

According to the Alabama Department of Labor, the largest employers in Cherokee County are KTH Leesburg Products (Automobile Parts and Supplies Manufacturer) and Walmart Supercenter (Department Store), both of which have 250 to 499 employees.

According to the Alabama Department of Labor, the largest employers in Marshall County are Pilgrim’s Pride Corporation (Poultry Processing Plant) and Farm Fresh Foods, LLC (Food Products and Manufacturers), both of which have 1,000 to 4,999 employees.

The following table presents demographic information for the NMSA assessment area.

Demographic Information of the Assessment Area						
Assessment Area: NMSA - Cherokee and Marshall Counties						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	24	0.0	12.5	54.2	33.3	0.0
Population by Geography	120,326	0.0	13.1	55.1	31.8	0.0
Housing Units by Geography	56,612	0.0	11.9	57.4	30.7	0.0
Owner-Occupied Units by Geography	33,366	0.0	10.3	54.9	34.8	0.0
Occupied Rental Units by Geography	12,173	0.0	19.6	57.3	23.1	0.0
Vacant Units by Geography	11,073	0.0	8.5	65.1	26.5	0.0
Businesses by Geography	6,344	0.0	9.7	52.2	38.1	0.0
Farms by Geography	356	0.0	5.6	65.7	28.7	0.0
Family Distribution by Income Level	32,644	19.5	18.4	18.3	43.8	0.0
Household Distribution by Income Level	45,539	21.1	16.8	17.2	44.9	0.0
Median Family Income Non-MSAs – AL		\$45,454	Median Housing Value			\$112,106
			Median Gross Rent			\$608
			Families Below Poverty Level			15.3%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2020 D&B data, there were 6,344 non-farm businesses located in the NMSA assessment area that reported the following gross annual revenues (GARs):

- 81.1 percent reported \$1 million or less,
- 5.1 percent reported more than \$1 million, and
- 13.8 percent did not report GARs.

The analysis of small business loans for the Borrower Profile criterion compares the distribution of small business loans to the distribution of businesses by the reported GAR level.

According to the Standard Industrial Classification system, services industries represented the largest portion of businesses at 32.6 percent, followed by retail trade at 17.2 percent, and non-classifiable establishments at 14.6 percent. In addition, 62.2 percent of assessment area businesses reported four or fewer employees, and 86.5 percent reported operating from a single location.

The analysis of home mortgage loans for the Borrower Profile criterion uses the 2019 and 2020 FFIEC-estimated median family income levels to determine income categories. The following table presents the 2019 and 2020 median family incomes and low-, moderate-, middle-, and upper-income categories and ranges.

Median Family Income Ranges – NMSA Cherokee and Marshall Counties				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Alabama NMSA Median Family Income (99999)				
2019 (\$49,700)	<\$24,850	\$24,850 to <\$39,760	\$39,760 to <\$59,640	≥\$59,640
2020 (\$51,700)	<\$25,850	\$25,850 to <\$41,360	\$41,360 to <\$62,040	≥\$62,040
<i>Source: FFIEC</i>				

Competition

The NMSA assessment area is moderately competitive in the market for financial services. According to the June 30, 2020 FDIC Deposit Market Share data, there were 19 FDIC-insured institutions operating 42 banking offices in the NMSA. Of these institutions, The Southern Bank Company ranked 11th with a 2.0 percent deposit market share.

The bank was not required to collect or report small business loan data, and did not elect to do so. Therefore, the analysis of small business loans under the Lending Test does not include comparisons against aggregate data. However, aggregate data reflects the level of demand and competition for small business loans. Therefore, aggregate data is included in this section for informational purposes only. Aggregate small business lending data for 2019 showed that 63 lenders reported 1,844 small business loans in the NMSA, which indicated a moderate degree of competition. Aggregate small business lending data was not yet available for 2020.

The bank was not required to collect or report home mortgage loan data, and did not elect to do so. Therefore, the analysis of home mortgage loans under the Lending Test does not include comparisons against aggregate data. However, aggregate data reflects the level of demand and competition for home mortgage loans. Therefore, aggregate data is included in this section for informational purposes only. Aggregate home mortgage lending data for 2019 showed that 231 lenders reported 3,222 home mortgage loans in the NMSA, which indicated a high degree of competition. Aggregate home mortgage lending data was not yet available for 2020.

Community Contacts

As part of the evaluation process, examiners contact third parties who are active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions respond to these needs, and what credit and community development opportunities are available. According to the Cherokee County community contact, the county needs sewage line improvements for current and future growth. The contact also noted that there is a need for funding opportunities to new and existing small business owners. According to the Marshall County community contact, childcare assistance is needed for single-parent families. The contact believes that maintaining employment is a challenge for single parents due to the lack of affordable childcare. The primary demographics of the area are a variation of the elderly and low-income individuals. The contact also stated that there are not a lot

of vacant houses. However, there are more income-based housing units being built and those vacancies are filled quickly.

Credit Needs

Considering information from the community contacts, bank management, demographic data, and economic data, examiners determined that small business and home mortgage loans represent primary credit needs in the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE CHEROKEE AND MARSHALL COUNTIES NMSA ASSESSMENT AREA

LENDING TEST

Overall, The Southern Bank Company demonstrated satisfactory performance under the Lending Test. As previously mentioned, the bank faces a high level of competition in this area and loan demand was impacted during the COVID-19 pandemic.

Geographic Distribution

Overall, the geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the NMSA assessment area. This conclusion is primarily supported by the bank’s reasonable performance in home mortgage lending. Examiners focused on the percentage of loans, by number, in moderate-income census tracts. There are no low-income census tracts in this assessment area.

Small Business Loans

The geographic distribution of small business loans reflects poor dispersion throughout the NMSA assessment area. The following table shows that the bank did not originate any small business loans in moderate-income census tracts.

Geographic Distribution of Small Business Loans in the Cherokee and Marshall Counties NMSA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	0.0	0	0.0	0	0.0
Moderate	9.7	0	0.0	0	0.0
Middle	52.2	9	69.2	662	96.0
Upper	38.1	4	30.8	28	4.0
N/A	0.0	0	0.0	0	0.0
Total	100.0	13	100.0	690	100.0

Source: 2020 D&B Data; Bank Records; Due to rounding, totals may not equal 100.0 percent.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the NMSA assessment area. The following table shows that the bank’s home mortgage lending performance in moderate-income census tracts was significantly higher than demographic data in 2019. However, the bank did not originate any loans in moderate-income census tracts in 2020.

Geographic Distribution of Home Mortgage Loans in the Cherokee and Marshall Counties NMSA					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low					
2019	0.0	0	0.0	0	0.0
2020	0.0	0	0.0	0	0.0
Moderate					
2019	10.3	2	18.2	60	9.0
2020	10.3	0	0.0	0	0.0
Middle					
2019	54.9	9	81.8	605	91.0
2020	54.9	1	25.0	37	16.7
Upper					
2019	34.8	0	0.0	0	0.0
2020	34.8	3	75.0	185	83.3
Totals					
2019	100.0	11	100.0	665	100.0
2020	100.0	4	100.0	222	100.0
<i>Source: 2015 ACS Data; Bank Data</i>					

Borrower Profile

The borrower profile distribution of small business and home mortgage loans reflects reasonable penetration throughout the NMSA assessment area. The bank’s reasonable performance in small business lending and reasonable performance in home mortgage lending supports this conclusion. Examiners focused on the percentage of loans, by number, to businesses with GAR of \$1 million or less and low- and moderate-income borrowers.

Small Business Loans

The borrower profile distribution of small business loans reflects reasonable penetration among businesses of different sizes. The following table shows that the bank’s performance in lending to small businesses is higher than business demographic data and reflects reasonable performance.

Distribution of Small Business Loans by Gross Annual Revenue Category in the Cherokee and Marshall Counties NMSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	81.1	12	92.3	685	99.3
> \$1,000,000	5.1	1	7.7	5	0.7
Revenue Not Available	13.8	0	0.0	0	0.0
Total	100.0	13	100.0	690	100.0
<i>Source: 2020 D&B Data; Bank Data</i>					

Home Mortgage Loans

The borrower profile distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels. The following table shows that the bank’s performance in lending to low-income borrowers was significantly lower than demographic data in 2019 and significantly higher than demographic data in 2020. The bank’s performance in lending to moderate-income borrowers was comparable to demographic data in 2019 and significantly higher than demographic data in 2020.

Distribution of Home Mortgage Loans by Borrower Income Level – Cherokee and Marshall Counties NMSA					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low					
2019	19.5	0	0.0	0	0.0
2020	19.5	1	25.0	75	33.8
Moderate					
2019	18.4	2	18.2	44	6.6
2020	18.4	1	25.0	37	16.7
Middle					
2019	18.3	2	18.2	127	19.1
2020	18.3	1	25.0	60	27.0
Upper					
2019	43.8	7	63.6	494	74.3
2020	43.8	0	0.0	0	0.0
Income Not Available					
2019	0.0	0	0.0	0	0.0
2020	0.0	1	25.0	50	22.5
Total					
2019	100.0	11	100.0	665	100.0
2020	100.0	4	100.0	222	100.0
<i>Source: 2015 ACS Data; Bank Data</i>					

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the institution under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

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 non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, 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.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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 and less than 120 percent in the case of a geography.

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 and less than 80 percent in the case of a geography.

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

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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.

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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.