



## **PUBLIC DISCLOSURE**

September 14, 2015

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

Second FS & LA of Philadelphia  
Charter Number 703776

1727 Chestnut St  
Philadelphia, PA 19103-4115

Office of the Comptroller of the Currency

Philadelphia Field Office  
1150 Northbrook Drive, Suite 303  
Trevose, PA 19053

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

**The Lending Test is rated: Substantial Noncompliance.**

The major factors that support this rating include:

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, lending-related activities, and Assessment Area ("AA") needs.
- A substantial majority of home mortgage loans were originated outside the institution's AA.
- The distribution of home mortgage loans represents very poor distribution among borrowers of different income levels.
- The geographic distribution of home mortgage loans reflects very poor distribution throughout the AA.
- During the evaluation period there were no complaints related to the bank's performance in meeting the credit needs of the AA.

**Scope of Examination**

The Office of the Comptroller of the Currency ("OCC") evaluated Second FS & LA of Philadelphia ("Second FS&LA") under the Small Bank Community Reinvestment Act ("CRA") examination procedures. The Lending Test evaluates the institution's record of meeting the credit needs of its AA based on the following five criteria:

- Loan-to-deposit ratio;
- Lending in assessment area;
- Lending to borrowers of different incomes;
- Geographic distribution of loans; and,
- Responsiveness to complaints.

The lending test for Second FS&LA covers the bank's performance from January 1, 2012 through December 31, 2014.

Second FS&LA's primary loan products are home mortgage loans. The institution is not a reporter under the requirements of the Home Mortgage Disclosure Act ("HMDA"). In order to assess the institution's lending activity, we reviewed all mortgages originated during the evaluation period.

The Office of Management and Budget (“OMB”) revised Metropolitan Area (“MA”) and census tract geographic definitions and boundaries in February 2013. CRA performance evaluations are impacted by the 2010 census data changes beginning January 1, 2012, and the MA changes beginning January 1, 2014. This performance evaluation reflects combined peer loan data for years 2012 through 2014, since OMB changes in 2014 do not materially affect the delineation of the bank’s AA. Conclusions regarding the bank’s lending performance are based on residential mortgage loans originated within the AA. The only loan originated within the AA was made in 2014; therefore, there is no data to aggregate across the delineation changes.

## **Description of Institution**

Second FS&LA is a federally-chartered mutual thrift headquartered in Philadelphia, Pennsylvania. The institution operates out of one office located in the Center City area of Philadelphia. It is open 9:00 AM to 3:00 PM, Monday through Friday. The institution does not offer Saturday banking hours or any Automated Teller Machines (“ATMs”). A website was developed and launched in mid-2015 ([www.secondfed.com](http://www.secondfed.com)). The institution employs two full-time employees and three part-time employees. It offers single-family residential mortgage loans, consumer loans, and a limited number of commercial loan products. All loans are held in its portfolio and are not serviced by others. The main branch is located in an upper-income tract. No branches have been opened or closed since the last evaluation.

The institution faces heavy competition from larger financial institutions within a few square blocks of its single office. Major competitors include Bank of America, NA; Citibank, NA; TD Bank, NA; M&T Bank, Wells Fargo Bank, NA; Prudential Savings Bank; PNC Bank, NA; and Beneficial Bank. The asset size and branch network of each of these competitors are considerably larger than Second FS&LA. Additional competition for mortgages in Center City Philadelphia comes from the many large realtors and their affiliates.

As of December 31, 2014, Second FS&LA reported \$13.9 million in total assets, \$4.9 million in net loans, and \$7.2 million in total deposits. The institution originated two loans in 2012, one home purchase and one refinance; two loans in 2013, both refinance loans; and seven loans in 2014, all seven were refinance loans. The institution stated that efforts to originate or purchase loans have continued to be difficult, based on their small asset size, limited resources, low-risk tolerance, and negative economic conditions. The bank does not have any plans for material growth or new product initiatives as their primary business focus is to remain stable. The portfolio is mostly retail loans with 100% of the loan portfolio secured by first mortgages on 1-4 family residential properties. The bank does not offer HELOCs or credit cards.

Second FS&LA does not have any legal, financial, or other condition restrictions that would impede its ability to meet the credit needs of the community. Second FS&LA received a “Substantial Noncompliance” rating at the last CRA evaluation dated September 19, 2011.

## Description of Assessment Area

Second FS&LA's AA consists of a portion of Philadelphia County, Pennsylvania. The AA, which is located in the Philadelphia Metropolitan Division (MD) #37964, contains 55 census tracts. There are manmade borders segmenting this portion of Philadelphia County, specifically Interstates 76, 676, and 95. The AA meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income geographies. Of the 55 census tracts in the AA, 17 or 30.9 percent are low-income, 11 or 20.0 percent are moderate-income, nine or 16.4 percent are middle-income, and 18 or 32.7 percent are upper-income census tracts.

Table 1 and Table 2 summarize the demographic information for this AA.

Table 1 - Demographic Information for the Second FS&LA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	55	30.91	20.00	16.36	32.73	0.00
Population by Geography	212,171	34.94	23.85	15.04	26.16	0.00
Owner-Occupied Housing by Geography	46,345	28.18	28.61	16.24	26.97	0.00
Family Distribution by Income Level	39,227	39.06	17.05	14.63	29.26	0.00
Distribution of Low and Moderate Income Families throughout AA	22,011	52.31	28.67	10.79	8.23	0.00
Median Family Income HUD Adjusted Median Family Income for 2014 Households Below the Poverty Level		= \$74,808 = \$78,800 = 20%	Median Housing Value Unemployment Rate **			= \$214,163 = 5.6%

Source: 2010 U.S. Census and 2014 HUD updated MFI

(\*) The NA category consists of geographies that have not been assigned an income classification

(\*\*) For Philadelphia-Camden-Wilmington MSA s of June 2015, from bls.gov

Table 2 - Additional Demographic Information for the Second FS&LA AA								
Geographic Income Category	% Family Distribution	Census Tract Data Distributions						
		# Tracts	# Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	39.06	17	33,368	39.13	42.25	87.27	103,519	68
Moderate	17.05	11	22,650	58.54	30.62	95.08	180,733	71
Middle	14.63	9	17,487	43.05	41.48	62.85	273,870	67
Upper	29.26	18	34,970	35.74	50.66	43.02	423,120	61
N/A	0.00	0	0.00	0.00	0.00	0.00	0	0
<b>Total #</b>	<b>39,227</b>	<b>55</b>	<b>108,475</b>	<b>46,345</b>	<b>46,001</b>	<b>76,690</b>	<b>214,163</b>	<b>66</b>

Source: 2010 U.S. Census

The population of the AA is 212,171 based on 2010 Census information. The AA contains 39,227 families. There are 108,475 housing units, of which 42.72 percent are owner-occupied; 42.40 percent are rental-occupied; and 14.88 percent are vacant units. Of the total number of housing units, 70.7 percent are single-family and 29.3 percent are multi-family. The median housing value is \$214,163, and the median gross rent amount is \$977 per month.

The median family income was \$74,808 and the 2014 HUD updated median family income was \$78,800. Approximately 39.06 percent of the families in the AA are categorized as low-income, 17.05 percent are moderate-income, 14.63 percent are middle-income, and 29.26 percent are upper-income. 20 percent of households are below the poverty level. According to the Bureau of Labor Statistics (BLS), the June 2015 “not-seasonally adjusted” unemployment rate in the Philadelphia MSA was 5.6 percent, which is higher than the Pennsylvania state unemployment rate of 5.4 percent and the National unemployment rate of 5.5 percent.

Overall, 56.11 percent of families within the AA are considered low- and moderate-income. The percentage of these low- and moderate-income families that live in low-income census tracts is 52.31 percent, while 28.67 percent live in moderate-income tracts, 10.79 percent live in middle-income tracts, and 8.23 percent live in upper-income tracts.

Table 3 depicts the maximum income amount for each income range in Second FS&LA’s AA.

<b>Table 3 - Definition of Income Ranges Used in the Evaluation</b>					
	<b>Maximum Income in for Income Range</b>				<b>HUD Adjusted 2014 Income*</b>
	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	
	<b>&lt;50%</b>	<b>50%-&lt;80%</b>	<b>80%-&lt;120%</b>	<b>≥120%</b>	
Second FS&LA AA	<\$39,400	<\$63,040	<\$94,560	>\$94,560	\$78,800

*Median Family Income as of 2010 Census was \$74,808. The 2014 updated HUD Adjusted MFI is \$78,800.*

Second FS&LA is located within the Philadelphia metro area. Philadelphia’s economic strengths include a concentration of world-class educational institutions, center for healthcare and medical research, housing market largely in balance, a well-developed port, and an international airport. Weaknesses include relatively anemic population growth, old and aging infrastructure, and prohibitive city taxes that push many businesses into suburbs or neighboring states.

The top five Philadelphia employers are University of Pennsylvania and Health System; Thomas Jefferson University and TJUH System; Comcast Corporation; Drexel University; and Einstein Healthcare Network. The top five sectors are education and health services (30 percent of total employment), government, professional and business services, retail trade, and financial activities.

Banking competition in the AA is strong. According to the June 30, 2014 FDIC Summary of Deposit Market Share Report, Second FS&LA was ranked 39 out of 45 depository institutions in Philadelphia County with a 0.02 percent deposit market share. Top competitors in this market include: Wells Fargo Bank, NA with a deposit market share of 26.37 percent, PNC Bank, NA with a deposit market share of 18.20 percent, Citizens Bank of PA with a deposit market share of 14.11 percent, Bank of America, NA with a deposit market share of 11.72 percent, and TD Bank, NA with a deposit market share of 7.93 percent.

The institution is not subject to the reporting requirements of the HMDA. However, market share data for all HMDA reporting institutions in the AA show that in 2014, there were 385 lending institutions within Second FS&LA's AA competing for mortgage loans. The three largest competitors are Wells Fargo Bank, NA with a 14 percent market share; JPMorgan Chase Bank, NA with a 6 percent market share; and Trident Mortgage Company with a 6 percent market share.

We contacted a local community group leader to determine the needs of the AA. This group is based in the Greater Philadelphia area and their primary purpose is to provide support to the homeless community. Our community contact said the greatest need he sees is funding, followed by helping to raise community awareness. Financial institutions could help address these needs through donations, fundraisers, organizing drives to get the community involved, etc.

## **Conclusions with Respect to the Lending Test**

Second FS&LA's performance under the lending test remains in substantial non-compliance. The institution's loan-to-deposit ratio is reasonable; a substantial majority of the home mortgage loans were located outside the AA; the distribution of loans to borrowers of low- and moderate-income reflects very poor distribution; the geographic distribution of loans reflects very poor distribution throughout the AA; and no CRA complaints were recorded during the evaluation period. All criteria of the lending test are documented below.

### **Loan-to-Deposit Ratio**

The loan-to-deposit ("LTD") ratio is reasonable given the institution's size and credit needs of its community. The institution's LTD ratio, although below average, meets the standards for satisfactory performance. Second FS&LA's LTD ratio averaged 66 percent for quarter-end financial data from March 31, 2012 to December 31, 2014. This represents a decline since the prior evaluation period when the institution's average LTD ratio was 78 percent. During the same period, the LTD ratio for other financial institutions with total assets less than \$100 million and operating within Philadelphia or the adjacent counties averaged 78 percent, which also declined from the prior evaluation period when the peer average was 84 percent. Second FS&LA's loan originations are lower than peer banks. This is due to substantial local competition, an inability to market on the scale of larger banks, and small size that dictates limited product offerings.

During the evaluation period, the Second FS&LA's LTD ratio ranged from a low of 60 percent at September 30, 2013 to a high of 74 percent at March 31, 2012. The average peer LTD ratios ranged from a low of 63 percent to a high of 102 percent.

### Lending in Assessment Area

Second FS&LA does not meet the standard for satisfactory performance for lending in the AA. A substantial majority of home refinance mortgages originated during the evaluation period were made outside of the AA. The institution originated 11 loans during the evaluation period. One was a home purchase mortgage, and 10 were home refinance mortgages. An analysis of these 11 loans disclosed that only one or 9.09 percent of the loans was originated within the AA.

Table 4 shows the distribution of loans by number and dollar amount made inside and outside of the AA.

Table 4 - Lending in Second FS&LA AA										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase Mortgage	0	0.00	1	9.09	1	0	0.00	\$189	12.46	\$189
Home Refinance Mortgage	1	9.09	9	81.81	10	\$150	9.89	\$1,178	77.65	\$1,328
Totals	1	9.09	10	90.90	11	\$150	9.89	\$1,367	90.11	\$1,517

Source: Second FS&LA's loan data 1/1/2012 to 12/31/2014; 2010 U.S. Census data

### Lending to Borrowers of Different Incomes

Second FS&LA's record of lending to borrowers of different incomes reflects very poor penetration throughout the AA and does not meet the standard for satisfactory performance. Of the families residing in the AA, 39.06 percent are low-income and 17.05 percent are moderate-income. Aggregate lending data shows that Second FS&LA's peers originated 9.90 percent and 15.56 percent of their loans to low- and moderate-income borrowers, respectively. The institution did not originate any loans to low- or moderate-income borrowers during the evaluation period. The only loan originated in the AA was to an upper-income borrower.

Philadelphia continues to experience adverse economic factors such as high unemployment and poverty rates are prevalent in the AA. However, these factors do not preclude the institution from making any loans to low- and moderate-income borrowers, as there are some more affordable housing options available. For example, in the low-income census tracts, the median housing value is \$103,519; the monthly mortgage payment on a 30-year mortgage for that amount (using Second FS&LA's current rate of 4.5%) is \$525, which is less than the median rent in low-income tracts of \$755.

Table 5 shows the distribution of home refinance loans among borrowers of different income levels as compared to the percentage of families in each income category as well as the aggregate peer performance.

Table 5 - Borrower Income Distribution of Home Mortgage Refinance Loans in the AA				
Income Level	# of Loans	% of Loans	% of Families	% Aggregate Peer Loans
Low	0	0.00	39.06	9.90
Moderate	0	0.00	17.05	15.56
Middle	0	0.00	14.63	20.11
Upper	1	100.00	29.26	54.43
<b>Total</b>	<b>1</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Second FS&LA's loan data 1/1/2012 to12/31/2014; 2010 U.S. Census data

### Geographic Distribution of Loans

Second FS&LA's geographic distribution of loans reflects very poor dispersion throughout the AA and does not meet the standard for satisfactory performance. Aggregate lending data shows that Second FS&LA's peers originated 16.33 percent and 25.92 percent of their loans in low- and moderate-income geographies, respectively. The institution did not originate any loans in low- or moderate-income geographies within the AA, during the evaluation period. The only loan originated within the assessment area was in a middle-income census tract.

Table 6 shows the distribution of home refinance mortgages originated in each census tract by income level to the percentage of owner occupied housing in each census tract by income level in the AA, as well as the distribution of aggregate peer loans.

Table 6 - Geographic Distribution of Home Mortgage Refinance Loans in AA				
Census Tract	# of Loans	% of Loans	% of Owner-Occupied Units	% Aggregate Peer Loans
Low	0.00	0.00	39.13	16.33
Moderate	0.00	0.00	58.54	25.92
Middle	1.00	100.00	43.05	21.89
Upper	0.00	0.00	35.74	35.87
<b>Total</b>	<b>1</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Second FS&LA's loan data 1/1/2012 to12/31/2014; 2010 U.S. Census data

### Responses to Complaints

Second FS & LA of Philadelphia did not receive any CRA complaints during the evaluation period.



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

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

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