

Oconee Federal Financial Corp.
Form 10-K
September 26, 2012

Use these links to rapidly review the document

[Table of Contents](#)

[INDEX TO CONSOLIDATED FINANCIAL STATEMENTS](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Fiscal Year Ended June 30, 2012

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number: 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in its Charter)

Federal
(State or Other Jurisdiction of
Incorporation or Organization)

32-0330122
(I.R.S. Employer
Identification Number)

201 East North Second Street, Seneca, South Carolina
(Address of Principal Executive Offices)

29678
(Zip Code)

(864) 882-2765

(Registrant's Telephone Number Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has

Edgar Filing: Oconee Federal Financial Corp. - Form 10-K

been subject to such requirements for the past 90 days.

(1) Yes No (2) Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 5, 2012 there were 6,423,645 shares outstanding of the registrant's common stock. The aggregate value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock as of December 31, 2011 was \$24.21 million.

DOCUMENTS INCORPORATED BY REFERENCE

1.

Portions of the Proxy Statement for the 2012 Annual Meeting of Stockholders. (Part III)

Table of Contents

Table of Contents

<u>PART I.</u>		
<u>Item 1.</u>	<u>Business</u>	<u>3</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>38</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>38</u>
<u>Item 2.</u>	<u>Properties</u>	<u>38</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>39</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>39</u>
<u>PART II.</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>39</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>41</u>
<u>Items 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>42</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>54</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>	<u>93</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>93</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>94</u>
<u>PART III.</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>94</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>94</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>94</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions and Director Independence</u>	<u>95</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>95</u>
<u>Part IV.</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>95</u>
	<u>Signatures</u>	<u>97</u>

Table of Contents

PART I

ITEM 1. Business

Forward Looking Statements

This annual report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

statements regarding our business plans and prospects and growth and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Annual Report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

our ability to manage our operations under the current adverse economic conditions (including real estate values, loan demand, inflation, commodity prices and employment levels) nationally and in our market areas;

adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);

increased competition among depository and other financial institutions;

Edgar Filing: Oconee Federal Financial Corp. - Form 10-K

our ability to improve our asset quality even as we increase our non-residential lending;

our success in increasing our commercial real estate and commercial business lending, including agricultural lending;

changes in the interest rate environment that reduce our margins or reduce the fair value of our financial instruments and real estate;

declines in the yield on our assets resulting from the current low interest rate environment;

our ability to successfully implement our business strategies;

risks related to high concentration of loans secured by real estate located in our market areas;

increases in deposit and premium assessments;

Edgar Filing: Oconee Federal Financial Corp. - Form 10-K

Table of Contents

legislative or regulatory changes, including increased compliance costs resulting from the recently enacted financial reform legislation, that adversely affect our business and earnings;

changes in the level of government support of housing finance;

our ability to enter new markets successfully and capitalize on growth opportunities;

our reliance on a small executive staff;

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

risks and costs related to operating as a publicly traded company;

changes in our organization, compensation and benefit plans;

loan delinquencies and changes in the underlying cash flows of our borrowers resulting in increased loan losses;

changes in our financial condition or results of operations that reduce capital available to pay dividends; and

changes in the financial condition or future prospects of issuers of securities that we own, including our stock in the FHLB of Atlanta.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Oconee Federal Financial Corp.

Oconee Federal Financial Corp. (the "Company") is a federally-chartered corporation that was incorporated in January 2011 to be the mid-tier stock holding company for Oconee Federal Savings and Loan Association in connection with the mutual-to-stock conversion of Oconee Federal Savings and Loan Association. The conversion was completed January 13, 2011. Oconee Federal Financial Corp. sold a total of 2,094,840 shares of common stock at \$10.00 per share in the related offering, issued 4,127,470 shares to Oconee Federal, MHC, and contributed 125,690 shares to Oconee Federal Charitable Foundation, a charitable foundation formed in connection with the conversion to support various charitable organizations operating in our community. Net proceeds from the offering were approximately \$19.5 million. As of June 30, 2012, Oconee Federal Financial Corp. had 6,423,645 shares outstanding and a market capitalization of approximately \$83.5 million.

The executive offices of Oconee Federal Financial Corp. are located at 201 East North Second Street, Seneca, South Carolina 29678, and the telephone number is (864) 882-2765. Our website address is www.oconeeffederal.com. Information on our website should not be considered a part of this annual report. Oconee Federal Financial Corp. is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System, as successor to the Office of Thrift Supervision with respect to savings and loan holding companies.

At June 30, 2012, we had total assets of \$377.7 million, total deposits of \$293.4 million and total equity of \$83.0 million. We recorded net income of \$4.0 million for the year ended June 30, 2012.

Oconee Federal Savings and Loan Association

Oconee Federal Savings and Loan Association is a federally chartered savings and loan association headquartered in Seneca, South Carolina. Oconee Federal Savings and Loan Association was originally

Edgar Filing: Oconee Federal Financial Corp. - Form 10-K

Table of Contents

chartered by the State of South Carolina in 1924 as Seneca Building and Loan Association. In 1958, it changed its name to "Oconee Savings and Loan Association," and in 1991 it converted to a federal charter under the name "Oconee Federal Savings and Loan Association."

Our principal business consists of attracting retail deposits from the general public in our market area and investing those deposits, together with funds generated from operations, in one- to four-family residential mortgage loans and, to a much lesser extent, non-residential mortgage, construction and land and other loans. We also invest in U.S. Government and federal agency securities, mortgage-backed securities and short-term deposits. We have also used borrowed funds as a source of funds, and we borrow principally from the Federal Home Loan Bank of Atlanta. We conduct our business from our main office, our executive office annex and three branch offices. All of our offices are located in Oconee County, South Carolina. Our primary market area consists of Oconee County and the nearby communities and townships in adjacent counties in South Carolina.

Oconee Federal Savings and Loan Association is subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency and by the Federal Deposit Insurance Corporation. Oconee Federal Savings and Loan Association is a member of the Federal Home Loan Bank system.

Oconee Federal, MHC

Oconee Federal, MHC is a federally-chartered mutual holding company formed in January 2011 to become the mutual holding company of Oconee Federal Financial Corp. in connection with the mutual-to-stock conversion of Oconee Federal Savings and Loan Association. As a mutual non-stock holding company, Oconee Federal, MHC has as its members all holders of deposit accounts at, and certain borrowers of, Oconee Federal Savings and Loan Association as of October 21, 1991. As a mutual holding company, Oconee Federal, MHC is required by law to own a majority of the voting stock of Oconee Federal Financial Corp. Oconee Federal, MHC is not currently, and at no time has been, an operating company.

Market Area

We conduct business through our main office, our executive office annex and one branch office located in Seneca, South Carolina and one additional branch office located in each of Walhalla, South Carolina and Westminster, South Carolina. All five of our offices are located in Oconee County, which is located on the I-85 corridor between the Charlotte and Atlanta metropolitan areas, approximately 120 miles south of Charlotte and approximately 120 miles north of Atlanta. Our offices are also located approximately 40 miles south of Greenville, South Carolina, and 10 miles from Clemson, South Carolina.

Our primary market area, which consists of Oconee County and the nearby communities and townships in adjacent counties in South Carolina, is mostly rural and suburban in nature. The Oconee County economy has historically been concentrated in manufacturing. Plant closings and layoffs in this sector, particularly in light manufacturing industries, in recent years have contributed to high unemployment in Oconee County. The regional economy is fairly diversified, with services, wholesale/retail trade, manufacturing and government providing the primary support. In addition, Oconee County and nearby counties are experiencing an increase in retiree populations. Oconee County's and South Carolina's respective June 2012 unemployment rates of 10.2% and 9.4% were above the comparable United States unemployment rate of 8.2%.

The largest employers in Oconee County are education and health services providers, public utilities and light manufacturing companies, including the Oconee County and Seneca City School Systems, Oconee Medical Center, Duke Energy, an electric utility and provider of nuclear and hydroelectric energy, Schneider Electric-Square D, a manufacturer of electronic components, Itron, a

Table of Contents

manufacturer of electronic measuring devices and Covidien, a manufacturer of healthcare products. Other employers include the local government, retail trade and the leisure/hospitality industry. Many residents of Oconee County are employed in nearby Greenville, South Carolina, which has major employers such as BMW Motors, Inc. and Greenville Memorial Hospital, and in Pickens County, which has major employers such as Clemson University and the Pickens County school system. In addition, although we only accept deposits from existing customers and residents of Oconee County, we extend credit to residents of adjacent counties in order to take advantage of the additional lending market located in these areas.

Competition

Competition for making loans and attracting deposits in our primary market area is intense, particularly in light of the relatively modest population base of Oconee County and the relatively large number of institutions that maintain a presence in the county. Financial institution competitors in our primary market area include other locally-based commercial banks, thrifts and credit unions, as well as regional and super-regional banks. We also compete with depository and lending institutions not physically located in our primary market area but capable of doing business remotely, mortgage loan originators and mortgage brokers and other companies in the financial services industry, such as investment firms, mutual funds and insurance companies. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. To meet our competition, we seek to emphasize our community orientation, local and timely decision making and superior customer service. As of June 30, 2011, our market share of deposits represented 25.52% of FDIC-insured deposits in Oconee County.

Lending Activities

The principal lending activity of Oconee Federal Savings and Loan Association is originating one- to four-family residential mortgage loans and, to a much lesser extent, home equity loans, non-residential mortgage loans, construction and land loans, and other loans. In recent years we have modestly expanded our non-residential mortgage loans in an effort to diversify our overall loan portfolio, increase the yield of our loans and shorten asset duration. In addition, we may modestly increase our home equity loan portfolio.

Edgar Filing: Oconee Federal Financial Corp. - Form 10-K

Table of Contents

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At or For the Year Ended June 30,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Real estate loans:										
One- to four-family(1)	\$ 234,125	92.82%	\$ 249,064	93.16%	\$ 250,390	93.81%	\$ 232,106	93.66%	\$ 230,260	94.37%
Multi-family	264	0.10	269	0.10	380	0.14	395	0.16	480	0.20
Home equity	395	0.16	466	0.17	510	0.19	892	0.36	1,239	0.51
Non-residential	9,226	3.66	9,399	3.52	9,456	3.54	8,353	3.37	5,751	2.36
Construction and land	7,232	2.87	7,156	2.68	5,158	1.93	4,867	1.96	5,116	2.10
Total real estate loans	251,242	99.61	266,354	99.63	265,894	99.61	246,613	99.51	242,846	99.54
Consumer and other loans	987	0.39	985	0.37	1,012	0.39	1,194	0.49	1,141	0.46
Total loans	\$ 252,229	100.00%	\$ 267,339	100.00%	\$ 266,906	100.00%	\$ 247,807	100.00%	\$ 243,987	100.00%
Net deferred loan fees	(1,540)		(1,677)		(1,690)		(1,580)		(1,459)	
Allowance for loan losses	(857)		(749)		(888)		(258)		(325)	
Loans, net	\$ 249,832		\$ 264,913		\$ 264,328		\$ 245,969		\$ 242,203	

(1) Includes \$2.6 million and \$2.7 million of loans secured by modular and manufactured homes as of June 30, 2012 and June 30, 2011, respectively.

Contractual Maturities and Interest Rate Sensitivity. The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2012. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. Loans are presented net of loans in process.

	One- to Four-Family	Multi-family	Home Equity	Non-residential	Construction and Land	Consumer and Other	Total
(Dollars in thousands)							
Amounts due in:							
One year or less	\$ 51	\$	\$	\$	2	\$ 801	\$ 854
More than one to two years	192			49		21	262
More than two to three years	671		3	66	7	151	898
More than three to five years	1,991		1	37	39	14	2,082
More than five to ten years	21,342		391	102	4,270		26,105
More than ten to fifteen years	29,485			1,597	198		31,280
More than fifteen years	180,393	264		7,373	2,718		190,748

Edgar Filing: Oconee Federal Financial Corp. - Form 10-K

Total	\$ 234,125	\$ 264	\$ 395	\$ 9,226	\$ 7,232	\$ 987	\$ 252,229
-------	------------	--------	--------	----------	----------	--------	------------

Table of Contents

The following table summarizes our fixed-rate and adjustable-rate loans that are due after June 30, 2012.