

Oconee Federal Financial Corp.
Form 10-Q
November 14, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended September 30, 2011

Or

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

For transition period from to

Commission File Number 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

Federal
(State of Other Jurisdiction
of Incorporation)

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

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

29678
(Zip Code)

(864) 882-2765

Registrant's telephone number, including area code

Not Applicable

(Former name or former address, if changed since last report)

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 such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 for such shorter period that the registrant was required to submit and post such files). Yes No .

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

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There were 6,348,000 shares of Common Stock, par value \$.01 per share, outstanding as of November 10, 2011.

Table of Contents

Explanatory Note

On January 13, 2011, Oconee Federal Financial Corp. (the Registrant), headquartered in Seneca, South Carolina, became the holding company for Oconee Federal Savings and Loan Association following the mutual-to-stock conversion of Oconee Federal Savings and Loan Association. The financial statements for the three months ended September 30, 2010 are for Oconee Federal Savings and Loan Association.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

Table of Contents

PART I

<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS – OCONEE FEDERAL FINANCIAL CORP.</u>	1
<u>ITEM 2.</u>	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OCONEE FEDERAL FINANCIAL CORP.</u>	18
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	24
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	24

PART II

<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	24
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	24
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	24
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	24
<u>ITEM 4.</u>	<u>(REMOVED AND RESERVED)</u>	24
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	24
<u>ITEM 6.</u>	<u>EXHIBITS</u>	24

Table of Contents

Part I

ITEM 1. FINANCIAL STATEMENTS

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	September 30, 2011 (Unaudited)	June 30, 2011 (*)
ASSETS		
Cash and cash equivalents	\$ 22,617	\$ 11,453
Federal funds sold and overnight interest bearing deposits	33,913	49,377
Total cash and cash equivalents	56,530	60,830
Securities held to maturity (estimated fair value: September 30, 2011 - \$9,225 and June 30, 2011 - \$9,473)	8,718	9,035
Securities available for sale	35,705	30,631
Loans, net of allowance for loan losses of \$723 and \$749	264,904	264,913
Premises and equipment, net	3,234	3,255
Real estate owned, net	2,571	2,254
Accrued interest receivable		
Loans	950	936
Investments	207	107
Restricted equity securities	557	557
Bank owned life insurance	369	369
Prepaid FDIC insurance premiums	452	488
Other assets	917	902
Total assets	\$ 375,114	\$ 374,277
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	\$ 2,473	\$ 2,014
Interest bearing	289,298	290,455
Total deposits	291,771	292,469
Accrued interest payable and other liabilities	2,050	1,597
Total liabilities	293,821	294,066
SHAREHOLDERS EQUITY		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 6,348,000 shares outstanding at September 30, 2011 and June 30, 2011	63	63
Additional paid in capital	20,940	20,935
Retained earnings	62,493	61,516

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Accumulated other comprehensive income	211	136
Unearned ESOP shares	(2,414)	(2,439)
Total shareholders' equity	81,293	80,211
Total liabilities and shareholders' equity	\$ 375,114	\$ 374,277

(*) Derived from audited financial statements.

See accompanying notes to the consolidated financial statements

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Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended	
	September 30, 2011	September 30, 2010
Interest and dividend income:		
Loans, including fees	\$ 3,670	\$ 3,678
Securities, taxable	172	129
Federal funds sold and other	29	20
Total interest income	3,871	3,827
Interest expense:		
Deposits	946	1,376
Total interest expense	946	1,376
Net interest income	2,925	2,451
Provision for loan losses	28	69
Net interest income after provision for loan losses	2,897	2,382
Noninterest income:		
Service charges on deposit accounts	18	23
Gains on sales of securities	67	
Other	6	(15)
Total noninterest income	91	8
Noninterest expense:		
Salaries and employee benefits	666	608
Occupancy and equipment	160	175
Data processing	75	60
Professional and supervisory fees	128	50
Office expense	27	16
Advertising	20	16
FDIC deposit insurance	41	64
Charitable contributions		4
Provision for real estate owned and related expenses	144	69
Other	120	23
Total noninterest expense	1,381	1,085
Income before income taxes	1,607	1,305
Income tax expense	630	493
Net income	\$ 977	\$ 812
Other comprehensive income, net of tax		
Unrealized gain on securities available for sale, net of taxes	\$ 78	\$

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Reclassification adjustment for gains realized in income, net of taxes		(3)		
Other comprehensive income		75		
Comprehensive income	\$	1,052	\$	812
Net income per share:	\$	0.16		N/A
Dividends declared per share	\$			N/A

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(All amounts in thousands, except share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Total
Balance July 1, 2010	\$	\$	\$ 59,661	\$	\$	\$ 59,661
Other comprehensive income						
Net income			812			812
Balance September 30, 2010	\$	\$	\$ 60,473	\$	\$	\$ 60,473
Balance July 1, 2011	\$ 63	\$ 20,935	\$ 61,516	\$ 136	\$ (2,439)	\$ 80,211
Net income			977			977
Other comprehensive income				75		75
ESOP shares earned		5			25	30
Balance at September 30, 2011	\$ 63	\$ 20,940	\$ 62,493	\$ 211	\$ (2,414)	\$ 81,293

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Three Months Ended	
	September 30, 2011	September 30, 2010
Cash Flows From Operating Activities		
Net income	\$ 977	\$ 812
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	28	69
Provision for real estate owned	71	32
Depreciation and amortization, net	91	77
Deferred loan fees, net of accretion	13	(10)
Deferred income tax benefit	(2)	
Gain on sale of real estate owned	(12)	
Gains on sales of securities	(67)	
Loss from other-than-temporary impairment	4	9
ESOP compensation expense	30	
Net change in operating assets and liabilities:		
Accrued interest receivable	(114)	7
Accrued interest payable	(9)	409
Other	660	(116)
Net cash provided by operating activities	1,670	1,289
Cash Flows From Investing Activities		
Purchases of premises and equipment	(38)	(15)
Purchases of securities available-for-sale	(15,233)	
Proceeds from maturities, paydowns and calls of securities held-to-maturity	317	867
Proceeds from maturities, paydowns and calls of securities available for sale	130	
Proceeds from sales of available-for-sale securities	10,182	
Proceeds from sale of real estate owned	51	200
Loan originations and repayments, net	(459)	(899)
Net cash provided by (used in) investing activities	(5,050)	153
Cash Flows from Financing Activities		
Net change in deposits	(698)	11,013
Dividends paid	(222)	
Net cash provided by (used in) financing activities	(920)	11,013
Change in cash and cash equivalents	(4,300)	12,455
Cash and cash equivalents, beginning of year	60,830	49,792
Cash and cash equivalents, end of period	\$ 56,530	\$ 62,247
Cash paid during the period for:		
Interest paid	\$ 955	\$ 967
Income taxes paid	\$	\$

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Supplemental noncash disclosures:

Transfers from loans to real estate owned	\$	427	\$	25
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See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oconee Federal Financial Corp. (referred to herein as the Company, we, us, or our) include the accounts of its wholly owned subsidiary Oconee Federal Savings and Loan Association (the Association) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Intercompany accounts and transactions are eliminated during consolidation. The Company is majority owned (65.02%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of September 30, 2011 and June 30, 2011 and the results of operations and cash flows for the interim periods ended September 30, 2011 and 2010. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Oconee Federal Financial Corp. for the year ended June 30, 2011.

(2) NEW ACCOUNTING STANDARDS

ASU 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring provides additional guidance to clarify when a loan modification or restructuring is considered a troubled debt restructuring (TDR) in order to address current diversity in practice and lead to more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The amendments to Topic 310 clarify the guidance regarding the evaluation of both considerations above. Additionally, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor s guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a TDR. This amendment is effective for us July 1, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, we may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. Implementation of these updates did not have a significant impact to the consolidated financial statements.

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In May 2011, the FASB has issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the FASB Accounting Standards Codification in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently in the process of evaluating the impact that this ASU may have on the consolidated financial statements.

In June 2011, the FASB has issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company has already complied with this update and the changes are reflected in our financial statements.

(3) EARNINGS PER SHARE (EPS)

Basic EPS or loss per common share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. ESOP shares are considered outstanding for this calculation unless unearned. The factors used in the earnings per common share computation follow:

	Three Months Ended September 30, 2011	
Net income	\$	977
Weighted average common shares outstanding		6,348,000
Less: Average unearned ESOP shares		(241,377)
Average shares for basic EPS		6,106,623
Basic EPS	\$	0.16

There were no potential dilutive common shares for the period presented; therefore, basic and diluted EPS are the same.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(4) SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at September 30, 2011 and June 30, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2011				
Held to maturity:				
FHLMC mortgage-backed securities	\$ 356	\$ 23	\$	\$ 379
GNMA mortgage-backed securities	8,362	484		8,846
Total held-to-maturity	\$ 8,718	\$ 507	\$	\$ 9,225
Available for sale:				
FHLMC common stock	\$ 20	\$	\$	\$ 20
FNMA mortgage backed securities	2,520	43		2,563
FHLMC mortgage backed securities	2,522	12		2,534
U.S. Government agencies	30,299	343	(54)	30,588
Total available for sale	\$ 35,361	\$ 398	\$ (54)	\$ 35,705
June 30, 2011				
Held to maturity:				
FHLMC mortgage-backed securities	\$ 384	\$ 27	\$	\$ 411
GNMA mortgage-backed securities	8,651	411		9,062
Total held-to-maturity	\$ 9,035	\$ 438	\$	\$ 9,473
Available for sale:				
FHLMC common stock	\$ 24	\$ 4	\$	\$ 28
U.S. Government agencies	30,387	216		30,603
Total available for sale	\$ 30,411	\$ 220	\$	\$ 30,631

The following table shows securities with unrealized losses at September 30, 2011 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 months Fair	Unrealized	12 Months or More Fair	Unrealized	Total Fair	Unrealized
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	Value	Loss	Value	Loss	Value	Loss
September 30, 2011						
U.S. Government agencies	\$ 15,051	\$ (54)	\$	\$	\$ 15,051	\$ (54)
Total temporarily impaired	\$ 15,051	\$ (54)	\$	\$	\$ 15,051	\$ (54)

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

There were nine U.S. Government agency securities with an unrealized loss at September 30, 2011. None of the unrealized losses for these securities have been recognized in net income for the three months ended September 30, 2011 because the issuer's bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach their maturity date or reset date. There were no securities with unrealized losses at June 30, 2011.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not it will be required to sell the security prior to the security's anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

During the three months ended September 30, 2011 and 2010, management recorded an other-than-temporary impairment charge on the FHLMC common stock of \$4 and \$9, respectively based on management's evaluation of the length of time the FHLMC had been impaired and the prospects of recoverability.

The amortized cost and fair value of securities available for sale and held to maturity debt securities at September 30, 2011 by contractual maturity are summarized as follows:

	September 30, 2011	
	Amortized Cost	Estimated Fair Value
Due from one to five years	\$ 22,852	\$ 23,176
Due from five to ten years	7,447	7,412
Due after ten years		
Mortgage backed securities	13,760	14,322
Total	\$ 44,059	\$ 44,910

Gross proceeds from sales of securities and gross gains for the three months ended September 30, 2011 were \$10,182 and \$67, respectively. There were no losses on sales. Additionally, there were no sales of securities for the three months ended September 30, 2010.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(5) LOANS

The components of loans receivable at September 30, 2011 and June 30, 2011 were as follows:

	September 30, 2011	June 30, 2011
Real estate loans:		
One to four family	\$ 248,157	\$ 249,064
Multi-family	268	269
Home equity	446	466
Nonresidential	9,217	9,399
Construction and land	8,287	7,156
Total real estate loans	266,375	266,354
Consumer loans	942	985
Total loans	267,317	267,339
Net deferred loan fees	(1,690)	(1,677)
Allowance for loan losses	(723)	(749)
Loans, net	\$ 264,904	\$ 264,913

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

The following table presents the activity in the allowance for loan losses for the three months ended September 30, 2011 and the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at September 30, 2011:

September 30, 2011

	One to four family	Multi- family	Real estate Home equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	\$ 647	\$ 4	\$ 1	\$ 56	\$ 38	\$ 3	\$ 749
Provision	44				(15)	(1)	28
Charge-offs	(54)						(54)
Recoveries							
Ending allowance attributed to loans:	\$ 637	\$ 4	\$ 1	\$ 56	\$ 23	\$ 2	\$ 723
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	\$ 21	\$	\$	\$	\$	\$	\$ 21
Collectively evaluated for impairment	616	4	1	56	23	2	702
Total ending allowance balance:	\$ 637	\$ 4	\$ 1	\$ 56	\$ 23	\$ 2	\$ 723
Loans:							
Loans individually evaluated for impairment	\$ 1,533	\$	\$	\$	\$	\$	\$ 1,533
Loans collectively evaluated for impairment	246,624	268	446	9,217	8,287	942	265,784
Total ending loans balance	\$ 248,157	\$ 268	\$ 446	\$ 9,217	\$ 8,287	\$ 942	\$ 267,317

The activity in the allowance for loan losses for the three months ended September 30, 2010 was as follows:

**Three Months Ended
2010**

Beginning balance	\$ 888
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Provision for loan losses		69
Loans charged off		(11)
Recoveries		
Ending balance	\$	946

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

The following table presents the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at June 30, 2011:

June 30, 2011

	One to four family	Multi- family	Real estate Home equity	Nonresidential	Construction and land	Consumer	Total
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	\$ 22	\$	\$	\$	\$	\$	\$ 22
Collectively evaluated for impairment	625	4	1	56	38	3	727
Total ending allowance balance:	\$ 647	\$ 4	\$ 1	\$ 56	\$ 38	\$ 3	\$ 749
Loans:							
Loans individually evaluated for impairment	\$ 2,008	\$	\$	\$	\$	\$	\$ 2,008
Loans collectively evaluated for impairment	247,056	269	466	9,399	7,156	985	265,331