

Sound Financial Bancorp, Inc.
Form 424B3
August 06, 2012
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Filed Pursuant to Rule 424(b)(3)

Registration No. 333-180385

SYNDICATED COMMUNITY

OFFERING PROSPECTUS

SOUND FINANCIAL BANCORP, INC.

(Proposed Holding Company for Sound Community Bank)

Up to 1,552,500 Shares of Common Stock

(Subject to Increase to up to 1,785,375 Shares)

\$10.00 per Share

Sound Financial Bancorp, Inc., a Maryland corporation referred to throughout this document as Sound Financial Bancorp, is offering up to 1,552,500 shares of common stock for sale at \$10.00 per share in connection with the conversion of Sound Community MHC from the mutual holding company to the stock holding company form of organization. The shares being offered represent the 54.8% ownership interest in Sound Financial, Inc. currently owned by Sound Community MHC. Sound Financial, Inc.'s common stock is currently traded on the OTC Bulletin Board under the trading symbol SNFL. We expect that Sound Financial Bancorp's shares of common stock will trade on the Nasdaq Capital Market under the trading symbol SFBC. For additional information regarding our current and proposed organizational structure, see page 2. We are an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012. See Emerging Growth Company Status.

We are offering the common stock for sale on a best efforts basis. The shares are first being offered in a subscription offering as described in this prospectus. Shares not purchased in the subscription offering may simultaneously be offered to the general public in a community offering, with a preference given to residents of the communities served by Sound Community Bank and existing shareholders of Sound Financial, Inc. Shares of common stock not subscribed for in the subscription and community offerings are being offered in a syndicated community offering which may include a syndicate of selected dealers. Keefe, Bruyette & Woods, Inc. will serve as sole book-running manager for the syndicated community offering. Neither Keefe, Bruyette & Woods, Inc. nor any member of the syndicate group, if any, is required to purchase any shares of common stock in the offering.

We must sell a minimum of 1,147,500 shares of common stock in the offering in order to complete the offering. We may sell up to 1,785,375 shares because of demand for the shares, as a result of regulatory considerations or changes in market conditions, without resoliciting

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purchasers. In addition to the shares we are selling in the offering, the remaining 45.2% interest in Sound Financial, Inc. common stock currently held by the public will be exchanged for shares of common stock of Sound Financial Bancorp using an exchange ratio that will result in the existing public shareholders owning approximately the same percentage of Sound Financial Bancorp common stock as they owned of Sound Financial, Inc. common stock immediately prior to the completion of the conversion. We will issue up to 1,281,699 shares of common stock in the exchange, which may be increased to up to 1,473,954 shares of common stock if we sell 1,785,375 shares of common stock in the offering.

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Completion of the conversion and offering is subject to several conditions, including the approval of the plan of conversion and reorganization by a vote of at least a majority of the outstanding shares of Sound Financial, Inc., excluding shares held by Sound Community MHC. See Summary Conditions to Completion of the Conversion.

OFFERING SUMMARY

Price: \$10.00 per share

	Minimum	Midpoint	Maximum	Adjusted Maximum
Number of shares	1,147,500	1,350,000	1,552,500	1,785,375
Gross offering proceeds	\$ 11,475,000	\$ 13,500,000	\$ 15,525,000	\$ 17,853,750
Estimated offering expenses, excluding selling agent fees and expenses	\$ 1,077,500	\$ 1,077,500	\$ 1,077,500	\$ 1,077,500
Estimated selling agent fees and expenses(1)	\$ 452,620	\$ 511,750	\$ 570,880	\$ 638,880
Net proceeds	\$ 9,944,880	\$ 11,910,750	\$ 13,876,620	\$ 16,137,371
Net proceeds per share	\$ 8.67	\$ 8.82	\$ 8.94	\$ 9.04

(1) Includes (i) fees payable by us to Keefe, Bruyette & Woods, Inc. in connection with the subscription and community offerings equal to 1.00% and 2.00% of the aggregate amount of common stock sold in the subscription and community offerings, respectively (less shares purchased by our directors, officers and employees and their immediate families and by our tax-qualified compensation plans), assuming that 40% of the shares are sold in the subscription offering and 25% of the shares are sold in the community offering, (ii) fees and selling commissions payable by us to Keefe, Bruyette & Woods, Inc. and any other broker-dealers participating in the syndicated community offering equal to 6.00% of the aggregate amount of common stock sold in the syndicated community offering, assuming that 35% of the shares are sold in the syndicated community offering, and (iii) other expenses of the stock offering payable to Keefe, Bruyette & Woods, Inc. estimated to be \$120,000. If all shares were sold in the syndicated community offering (excluding shares purchased by the employee stock ownership plan, directors and executive officers), the maximum commission payable to participating members would be \$618,720, \$730,500, \$842,280 and \$970,827 at the minimum, midpoint, maximum and adjusted maximum of the offering range. For further information regarding selling agent fees and commissions, including certain additional compensation not included in the table above, see The Conversion and Offering Marketing Arrangements.

This investment involves a degree of risk, including the possible loss of principal.

Please read Risk Factors beginning on page 20.

These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Neither the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

KEEFE, BRUYETTE & WOODS

For assistance, please contact the Stock Information Center toll-free at (877) 860-2091.

The date of this prospectus is June 29, 2012.

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SUMMARY

The following summary explains the material aspects of the conversion, the offering and the exchange of existing shares of Sound Financial, Inc. common stock for shares of Sound Financial Bancorp, Inc. common stock. It may not contain all of the information that is important to you. Before making an investment decision you should read the remainder of this prospectus carefully, including the consolidated financial statements, the notes to the consolidated financial statements and the section entitled Risk Factors.

The Companies

Sound Financial Bancorp, Inc. Sound Financial Bancorp, Inc., referred to in this prospectus as Sound Financial Bancorp, is a newly formed Maryland corporation that was incorporated in March 2012 to be the successor corporation to Sound Financial, Inc. upon completion of the conversion. While federal regulations contemplate the use of federally chartered entities in the mutual holding company structure, fully converted public stock holding companies must be state-chartered entities. Sound Financial Bancorp will own all of the outstanding shares of common stock of Sound Community Bank upon completion of the conversion. Sound Financial Bancorp will be subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board or Federal Reserve). Sound Financial Bancorp's executive offices are located at 2005 5th Avenue, Suite 200, Seattle, Washington 98121. Our telephone number at this address is (206) 448-0884.

Sound Community MHC. Sound Community MHC is the federally chartered mutual holding company of Sound Financial, Inc. Sound Community MHC's principal business activity is the ownership of 1,621,435 shares of common stock of Sound Financial, Inc., or 54.8% of the issued and outstanding shares as of the date of this prospectus. After the completion of the conversion, Sound Community MHC will cease to exist.

Sound Financial, Inc. Sound Financial, Inc. is a federally chartered stock holding company that owns all of the outstanding common stock of Sound Community Bank. Sound Financial, Inc. was incorporated in 2008 for the purpose of becoming the holding company of Sound Community Bank in connection with the mutual-to-stock conversion of Sound Community Bank. Sound Community Bank reorganized into the mutual holding company form of ownership and completed a public stock offering on January 8, 2008. In conjunction with the public stock offering, Sound Financial, Inc. raised approximately \$13.0 million of proceeds. Sound Financial, Inc. has no significant assets other than its ownership of all of the outstanding shares of common stock of Sound Community Bank, its loan to the employee stock ownership plan, and certain liquid assets. Sound Financial, Inc.'s stock is traded on the OTC Bulletin Board under the symbol SNFL.

At March 31, 2012, Sound Financial, Inc. had consolidated assets of \$348.7 million, deposits of \$307.8 million and stockholders' equity of \$29.5 million. After the completion of the conversion, Sound Financial, Inc. will cease to exist, and will be succeeded by Sound Financial Bancorp. As of the date of this prospectus, Sound Financial, Inc. had 2,960,045 shares of common stock issued and outstanding, of which 1,621,435 shares were owned by Sound Community MHC. The remaining 1,338,610 shares of Sound Financial, Inc. common stock outstanding as of the date of this prospectus were held by the public.

Sound Community Bank. Sound Community Bank is a federally chartered stock savings bank headquartered in Seattle, Washington and the wholly-owned subsidiary of Sound Financial, Inc. Sound Community Bank was originally founded as a credit union and converted to a federal mutual (meaning no shareholders) savings bank in 2003. In 2008, Sound Community Bank converted to stock form and became the

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wholly-owned subsidiary of Sound Financial, Inc. as part of a mutual holding company reorganization and stock issuance.

Executive Overview

We serve the Puget Sound region in western Washington, including the Seattle-Tacoma-Bellevue metropolitan area (Seattle MSA), and Clallam County, Washington through our main office in Seattle and four branch offices, two of which are located in the Seattle MSA and two that are located in Clallam County, west of Puget Sound. Our main office is located in Seattle in King County, while the Tacoma branch is located in Pierce County, the Mountlake Terrace branch is located in Snohomish County and the Sequim and Port Angeles branches are located in Clallam County. In 2009, we acquired branches located in Port Angeles and Tacoma, Washington from another local institution. We are a member of the Federal Home Loan Bank (FHLB) system, and our

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customers' deposits are insured up to the regulatory maximums by the Federal Deposit Insurance Corporation (FDIC).

Although our total assets, loans and deposits have remained relatively stable over the last three years, we have continued to diversify our loan portfolio over this period. At March 31, 2012, residential mortgage loans (including home equity loans) and consumer loans comprised 45.4% and 9.3%, respectively, of our total loan portfolio, compared to 58.9% and 21.0%, respectively, at December 31, 2007. We have also in recent years focused on expanding our commercial loan portfolio, including both real estate secured loans and loans secured by business assets. In this regard, commercial real estate (including multifamily loans) and commercial business loans have more than doubled as a percentage of our total loans, from 16.2% to 39.2% from December 31, 2007 to March 31, 2012, while construction and loans have increased slightly from 3.9% to 6.0% during this same period. As of March 31, 2012, 86.3% of our total loans were real estate secured mortgage loans, substantially all of which secured by properties located in the state of Washington.

We focus on residential mortgage loan originations, most of which are written using generally accepted underwriting guidelines, and are sold in the secondary market to Fannie Mae, with servicing retained for continued customer contact, relationship building and to increase non-interest income. Primarily as a result of these sales, substantially all of the one- to four-family residential mortgage loans we retain in this portfolio consist of loans that are non-conforming because they do not satisfy acreage limits, income, credit or various other requirements imposed by Fannie Mae or other secondary market purchasers. We believe that these loans satisfy a need in our market area and, subject to market conditions, intend to continue to originate these types of loans. See Business of Sound Financial Inc. and Sound Community Bank Lending Activities One- to Four-Family Real Estate Lending. We do not actively engage in originating alt A loans, interest-only, option adjustable rate or subprime loans and have no established program to originate or purchase these loans. Through our normal lending practices, we held in our loan portfolio at March 31 2012, \$988,000 of interest only loans, representing less than one-half percent of our total loan portfolio, and \$22.7 million in loans identified as subprime at the time of loan origination, representing 7.5% of our total loan portfolio, and no alt A or option adjustable rate loans. Subprime loans are defined by bank regulators as loans that at the time of loan origination had a Fair Isaac and Company, Incorporated, or FICO, credit score of less than 660. At the time of loan origination or modification, our subprime borrowers had an average FICO score of 631. We obtain updated FICO scores on all our borrowers semi-annually and based on this updated score, at March 31 2012, \$16.6 million or 5.5% of our total loan portfolio would be deemed subprime. As of March 31, 2012, our subprime portfolio, based on the FICO score at the time of loan origination or modification, included approximately \$14.3 million in one- to four-family mortgage loans (of which \$3.0 million were adjustable rate), \$5.2 million in home equity loans (all of which are adjustable rate), \$2.4 million in manufactured home loans (none of which were adjustable rate) and \$942,000 in other types of consumer loans (of which \$203,000 were adjustable rate). Approximately 91% of these subprime loans were originated prior to 2010, and these loans are managed in the ordinary course of business. We do not believe subprime lending to be a material part of our business. See also Risk Factors Our loan portfolio possesses increased risk as the result of subprime loans.

The composition of our deposit mix has also changed over the last three years due to our emphasis on increasing core deposits, which we define as our non-certificate or non-time deposit accounts. Core deposits comprised 55.8% of total deposits at March 31, 2012, versus 53.3% of total deposits at year end 2009. We also use borrowings to fund growth and to manage funding costs and interest rate risk. Borrowings totaled \$8.3 million at March 31, 2012, a decrease of \$16.5 million from December 31, 2010, as we reduced reliance on these borrowings as the result of deposit growth exceeding loan growth.

Our market area for business operations is the Puget Sound region in western Washington and Clallam County, Washington. In recent years, like much of the country, the economy in our market area has experienced a downturn, reflecting the impact of the nationwide recession. Unemployment rates increased, and real estate prices diminished from peak levels. As a result, like most financial institutions, our future operating results and financial performance will be significantly affected by the course of recovery in our market area from the recent recessionary downturn. Economic conditions in general appear to be stabilizing, as the unemployment rates in two of our four county market areas and the state of Washington have decreased since December 31, 2010, which is consistent with the nation as a whole. King County reported an unemployment rate of 7.1% for March 2012, which is lower than the state and national unemployment rates of 8.3% and 8.2%, respectively, as of March 2012. The unemployment rates for Clallam, Pierce and Snohomish Counties all are above the state and national rates as of March 2012. The

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unemployment rate in Clallam County increased from 10.1% at December 31, 2010 to 11.2% for March 2012, while the unemployment rate in Pierce County also increased from 9.2% for December 2010 to 9.8% as of March 2012. Snohomish County reported an unemployment rate of 8.4% as of March 2012 as compared to 9.8% at December 31, 2010.

For most of the past three years, housing markets remained weak in our market area, resulting in elevated levels of delinquencies and nonperforming assets, deterioration in property values, and the need to provide for provision for loan losses in amounts that have materially adversely affected our earnings. For the three months ended March 31, 2012 and the years ended December 31, 2011 and 2010, we recorded net income of \$546,000, \$1.6 million and \$1.3 million, respectively, as compared to a net loss of \$614,000 for the year ended December 31, 2009. Our provision for loan loss for the three months ended March 31, 2012 and year ended December 31, 2011 was \$1.5 million and \$4.6 million, respectively, as compared to \$4.7 million and \$4.3 million in the years ended December 31, 2010 and 2009, respectively. At March 31, 2012, we had \$9.8 million of nonperforming assets (representing 2.81% of total assets), compared to \$9.5 million and (representing 2.78% of total assets), and \$5.9 million (representing 1.75% of total assets) at December 31, 2011 and 2010, respectively. Nonperforming assets increased since 2010 primarily due to a \$2.0 million increase in nonperforming commercial and multifamily loans and a \$1.4 million increase in nonperforming one-to four-family loans. At March 31, 2012, our allowance for loan losses was \$4.4 million, equal to 1.45% of total loans and 56.28% of non-performing loans. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition at March 31, 2012 Compared to March 31, 2011 Delinquencies and Nonperforming Assets for more information on nonperforming assets.

In this prospectus, the terms we, our, and us refer to Sound Financial, Inc. and Sound Community Bank unless the context indicates another meaning.

Our Business Strategy

Our principal objective is to remain an independent, community-oriented financial institution serving customers in our primary market area. Our Board of Directors has sought to accomplish this objective through the adoption of a strategy designed to maintain profitability, a strong capital position and high asset quality. This strategy primarily involves:

- Focusing on asset quality;

- Improving earnings by expanding product offerings, including increasing the percentage of our assets consisting of higher-yielding commercial real estate and commercial business loans, which offer higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations than one-to four- family mortgage loans while maintaining our focus on residential lending by offering additional loan products;

- Emphasizing lower cost core deposits to manage the funding costs of our loan growth;

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- Improving profitability through continued expense control;
- Maintaining our customer service focus; and
- Expanding our presence within our existing and nearby market areas by capturing business opportunities resulting from changes in the competitive environments.

These strategies are intended to guide our investment of the net proceeds of the offering. We intend to continue to pursue our business strategy after the conversion and the offering, subject to changes necessitated by future market conditions and other factors. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Strategy for a further discussion of our business strategy. A full description of our products and services begins on page 72 of this prospectus under the heading Business of Sound Financial Inc. and Sound Community Bank.

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Our Current Organizational Structure

In 2008, Sound Financial, Inc. became the mid-tier stock holding company of Sound Community Bank, owning 100% of its stock, and conducted an initial public offering by selling a minority of its common stock to the public. The majority of the outstanding shares of common stock of Sound Financial, Inc. are owned by Sound Community MHC, which is a federally chartered mutual holding company with no shareholders.

Pursuant to the terms of the Plan of Conversion and Reorganization of Sound Community MHC, which is referred to throughout this prospectus as the plan of conversion, Sound Community Bank will convert from the mutual holding company to the stock holding company corporate structure. As part of the conversion, we are offering for sale in a subscription offering, a community offering and possibly a syndicated community offering, the majority ownership interest of Sound Financial, Inc. that is currently owned by Sound Community MHC. Upon completion of the conversion, Sound Community MHC will cease to exist, and we will complete the transition from partial to full public stock ownership. In addition, as part of the conversion, existing public shareholders of Sound Financial, Inc. will receive shares of common stock of Sound Financial Bancorp in exchange for their shares of Sound Financial, Inc. common stock pursuant to an exchange ratio that maintains the same percentage ownership in Sound Financial Bancorp (excluding any new shares purchased by them in the offering and their receipt of cash in lieu of fractional exchange shares) that existing shareholders had in Sound Financial, Inc. immediately prior to the completion of the conversion and offering.

The following diagram shows our current organizational structure:

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Our Organizational Structure Following the Conversion

After the conversion and offering are completed, we will be organized as a fully public stock holding company, as follows:

Reasons for the Conversion and the Offering

Our primary reasons for converting and raising additional capital through the offering include:

- to support organic growth by increasing our lending in the communities we serve;
- to improve our capital position during a period of significant economic uncertainty, especially for the financial services industry (although, as of March 31, 2012, Sound Community Bank was considered well capitalized for regulatory purposes and is not subject to any directive or recommendation from the Office of the Comptroller of the Currency (OCC) or the FDIC to raise capital);
- to finance the possible acquisition of branches from other financial institutions or build or lease new branch facilities in, or adjacent to, our market areas, although we do not currently have any agreements or understandings regarding any specific acquisition transaction;

- to enhance existing products and services, and support the development of new products and services, by investing, for example, in technology to support growth and enhanced customer service;
- the stock holding company structure is a more familiar form of organization, which we believe will make our common stock more appealing to investors, and will give us greater flexibility to access the capital markets through possible future equity and debt offerings, although we have no current plans, agreements or understandings regarding any additional capital raising efforts; and
- to seek to improve the liquidity of our shares of common stock and shareholder returns through higher earnings and more flexible capital management strategies.

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Terms of the Offering

We are offering between 1,147,500 and 1,552,500 shares of common stock to eligible depositors of Sound Community Bank, to our tax-qualified employee benefit plans, including our employee stock ownership plan and, to the extent shares remain available, to natural persons and trusts of natural persons residing in the Washington counties of Clallam, King, Pierce and Snohomish, to our existing public shareholders and to the general public. The number of shares of common stock to be sold may be increased to up to 1,785,375 as a result of regulatory considerations, demand for our shares, or changes in the market for financial institution stocks. Unless the number of shares of common stock to be offered is increased to more than 1,785,375 shares or decreased to fewer than 1,147,500 shares, or the offering is extended beyond September 14, 2012, purchasers will not have the opportunity to modify or cancel their stock orders once submitted. If the number of shares of common stock to be sold is increased to more than 1,785,375 shares or decreased to fewer than 1,147,500 shares, or if the offering is extended beyond September 14, 2012, purchasers will have the opportunity to maintain, cancel or change their orders for shares of common stock during a designated resolicitation period or have their funds returned promptly with interest. If, in that event, you do not provide us with written indication of your intent, your stock order will be canceled, your funds will be returned to you with interest calculated at Sound Community Bank's regular savings rate and any deposit account withdrawal authorizations will be canceled.

The purchase price of each share of common stock to be offered for sale in the offering is \$10.00. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Keefe, Bruyette & Woods, Inc., our marketing agent in the offering, will use its best efforts to assist us in selling shares of our common stock. Keefe, Bruyette & Woods, Inc. is not obligated to purchase any shares of common stock in the offering.

We may also offer for sale to the general public in a syndicated offering through a syndicate of selected dealers shares of our common stock not purchased in the subscription offering or the community offering. We may begin the syndicated community offering at any time following the commencement of the subscription offering. Keefe, Bruyette & Woods, Inc. will manage the syndicated community offering, if any, which will also be conducted on a best efforts basis. Neither Keefe, Bruyette & Woods, Inc., nor any other member of the syndicate, is required to purchase any shares in the syndicated community offering.

How We Determined the Offering Range, the Exchange Ratio and the \$10.00 Per Share Stock Price

The offering range and exchange ratio are based on an independent appraisal of the estimated market value of Sound Financial Bancorp assuming the conversion, the exchange and the offering are completed. RP Financial, L.C., an appraisal firm experienced in appraisals of financial institutions, has estimated that, as of May 25, 2012, this estimated pro forma market value ranged from \$20.9 million to a maximum of \$28.3 million, with a midpoint of \$24.6 million. Based on this valuation, the 54.8% ownership interest of Sound Community MHC being sold in the offering and the \$10.00 per share price, the number of shares of common stock being offered for sale by Sound Financial Bancorp will range from 1,147,500 shares to 1,552,500 shares. The \$10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. The exchange ratio will range from 0.70771 shares at the minimum of the offering range to 0.95749 shares at the maximum of the offering range in order to approximately preserve the existing percentage ownership of public shareholders of Sound Financial Bancorp (excluding any new shares purchased by them in the offering and their receipt of cash in lieu of fractional exchange shares). If the demand for shares or market conditions warrant, the appraisal can be increased by 15%. At this adjusted maximum of the offering range, the estimated pro forma market value is \$32.6 million, the number of shares of common stock offered for sale will be 1,785,375 and the exchange ratio will be 1.10111 shares.

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The independent appraisal is based primarily on Sound Financial, Inc.'s financial condition and results of operations, the pro forma impact of the additional capital raised by the sale of shares of common stock in the offering, and an analysis of a peer group of 10 publicly traded savings bank and thrift holding companies that RP Financial considered comparable to Sound Financial Bancorp. The appraisal peer group was initially selected from the universe of all publicly-traded savings institutions with resources, strategies, financial and other operating characteristics relatively comparable to Sound Financial Bancorp. Additional criteria applied in the selection of the appraisal peer group included that the stock institution was fully-converted for at least one year and not subject to an actual or rumored acquisition, headquartered in the state of Washington with assets less than \$1.5 billion, and

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trailing twelve month earnings greater than negative 0.25% of average assets, and to those companies on a national basis (excluding those companies located in the Northeastern and Mid-Atlantic regions of the United States) with assets between \$275 million and \$425 million and positive earnings. The appraisal peer group consists of the following companies. Total assets are as of March 31, 2012.

Company Name and Ticker Symbol	Exchange	Headquarters	Total Assets (in millions)
Athens Bancshares Corporation (AFCB)	NASDAQ	Athens, TN	\$ 294
Eagle Bancorp Montana, Inc. (EBMT)	NASDAQ	Helena, MT	332
First Financial Northwest, Inc. (FFNW)	NASDAQ	Renton, WA	1,037
Jacksonville Bancorp, Inc. (JXSB)	NASDAQ	Jacksonville, IL	317
LSB Financial Corp. (LSBI)	NASDAQ	Lafayette, IN	372
Louisiana Bancorp, Inc. (LABC)	NASDAQ	Metairie, LA	319
River Valley Bancorp (RIVR)	NASDAQ	Madison, IN	404
Timberland Bancorp, Inc. (TSBK)	NASDAQ	Hoquiam, WA	743
Wayne Savings Bancshares (WAYN)	NASDAQ	Wooster, OH	409
Wolverine Bancorp, Inc. (WBKC)	NASDAQ	Midland, MI	292

The independent appraisal does not indicate actual market value. Do not assume or expect that the estimated pro forma market value as indicated above means that, after the offering, the shares of our common stock will trade at or above the \$10.00 purchase price.

The following table presents a summary of selected pricing ratios for the peer group companies and Sound Financial Bancorp (on a pro forma basis). The pricing ratios are based on earnings and other information as of and for the twelve months ended March 31, 2012, stock price information as of May 25, 2012, as reflected in RP Financial's appraisal report, dated May 25, 2012, and the number of shares outstanding as described in Pro Forma Data. Compared to the average pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a discount of 6.9% on a price-to-book value basis, a discount of 6.7% on a price-to-tangible book value basis, a discount of 17.0% on a price-to-earnings basis and a discount of 31.2% on a price-to-core earnings basis.

	Price-earnings multiple	Price-to-core-earnings multiple(1)	Price-to-book value ratio	Price-to-tangible book value ratio
Sound Financial Bancorp (on a pro forma basis, assuming completion of the conversion)				
Minimum	14.23x	10.09x	55.07%	56.31%
Midpoint	16.99x	11.99x	62.00%	63.33%
Maximum	19.83x	13.93x	68.31%	69.74%
Adjusted Maximum	23.21x	16.22x	75.02%	76.51%
Valuation of peer group companies, as of May 25, 2012				
Average	23.89x	20.26x	73.39%	74.77%
Median	20.55x	18.35x	75.79%	75.79%

(1) Information is derived from the RP Financial appraisal report and is based upon estimated core earnings for the twelve months ended March 31, 2012. These ratios are different from the ratios in Pro Forma Data.

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Our Board of Directors, in reviewing and approving the independent appraisal, considered the range of price-to-earnings and price-to-core earnings multiples, the range of price-to-book value and price-to-tangible book value ratios at the different ranges of shares of common stock to be sold in the offering, and did not consider one valuation approach to be more important than the other. Instead, in approving the independent appraisal, the Board of Directors concluded that these ranges represented the appropriate balance of the three approaches to establishing our estimated valuation range, and the number of shares of common stock to be sold, in comparison to the peer group institutions. The estimated appraised value and the resulting discounts and premiums took into consideration the potential financial impact of the offering as well as the trading price of Sound Financial, Inc. common stock,

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which increased from \$7.10 per share on January 27, 2012, the closing price on the last trading day immediately preceding the announcement of the conversion, to \$7.85 per share, the closing price on May 25, 2012, the effective date of the independent appraisal.

RP Financial, will update the independent appraisal prior to the completion of the conversion. If the estimated appraised value changes to either below \$20.9 million or above \$32.6 million, then, after consulting with the Federal Reserve, we may: set a new offering range and resolicit persons who submitted stock orders; terminate the offering and promptly return all funds; or take such other actions as may be permitted by the Federal Reserve Board and the Securities and Exchange Commission (SEC). See The Conversion and Offering Stock Pricing and Number of Shares to be Issued.

After-Market Performance of Second-Step Conversion Offerings

The following table provides information regarding the after-market performance of the second-step conversion offerings completed between January 1, 2011 and May 25, 2012. A second-step conversion is a stock offering by a stock-form savings institution or its holding company that is majority-owned by a mutual holding company where the mutual holding company structure will terminate in connection with the offering. As part of its appraisal of our pro forma market value, RP Financial considered the after-market performance of these second-step conversion offerings. None of these companies were included in the peer group of 10 publicly traded companies utilized by RP Financial in performing its valuation analysis. Because the market for stocks of financial institutions was very volatile over the past two years, a relatively small number of second-step conversion offerings were completed during this period as compared to prior periods.

Company Name and Ticker Symbol	Date of Offering	Exchange	Gross Offering Proceeds	Percentage Price Increase (Decrease) From Initial Trading Date			
				After 1 Day	After 1 Week	After 1 Month	Through May 25, 2012
Cheviot Financial Corp. (CHEV)	01/18/12	NASDAQ	\$ 37.4	3.13%	2.63%	3.50%	6.38%
Naugatuck Valley Fin. Corp. (NVSL)	06/30/11	NASDAQ	33.4	(1.30)	(2.50)	1.90	(4.38)
Rockville Financial, Inc. (RCKB)	03/04/11	NASDAQ	171.1	6.00	6.50	5.00	11.30
Eureka Financial Corp. (EKFC)	03/01/11	OTCBB	7.6	22.50	17.50	28.50	48.00
Atlantic Coast Fin. Corp. (ACFC)	02/04/11	NASDAQ	17.1	0.50	0.00	2.00	(78.20)
Alliance Bancorp, Inc. (ALLB)	01/18/11	NASDAQ	32.6	10.00	6.80	11.90	18.80
SI Financial Group, Inc. (SIFI)	01/13/11	NASDAQ	52.4	15.90	12.90	17.50	40.88
Minden Bancorp, Inc. (MDNB)	01/05/11	OTCBB	13.9	28.00	28.50	30.00	45.00
Average			\$ 45.7	10.59%	9.04%	12.54%	10.97%
Median			33.0	8.00	6.65	8.45	15.05

The table above presents only short-term historical information on stock price performance, which may not be indicative of the longer-term performance of such stock prices. The historical stock price information is not intended to predict how our shares of common stock may perform following the offering. The historical information in the table may not be meaningful to you because the data were calculated using a small sample. Stock price performance is affected by many factors, including, but not limited to: general market and economic conditions; the interest rate environment; the amount of proceeds a company raises in its offering; and numerous factors relating to the specific company, including the experience and ability of management, historical and anticipated operating results, the nature and quality of the company's assets, and the company's market area. The companies listed in the table above may not be similar to Sound Financial Bancorp, the pricing ratios for their stock offerings may be different from the pricing ratios for Sound Financial Bancorp and the market conditions in which these offerings were completed may be different from current market conditions. Any or all of these differences may cause our stock to perform differently from

these other offerings.

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At the conclusion of the conversion, shares held by existing shareholders of Sound Financial, Inc. will be canceled and exchanged for shares of common stock of Sound Financial Bancorp. The number of shares of common stock received will be based on an exchange ratio determined as of the conclusion of the conversion and offering, which will depend upon the number of shares sold in the offering. The number of shares received will not be based on the market price of our currently outstanding shares. Instead, the exchange ratio will ensure that existing public shareholders of Sound Financial, Inc. will retain the same percentage ownership of our organization after the offering, exclusive of their purchase of any additional shares of common stock in the offering and their receipt of cash in lieu of fractional exchange shares. In addition, if options to purchase shares of Sound Financial, Inc. common stock are exercised before consummation of the conversion, there will be an increase in the percentage of shares of Sound Financial, Inc. held by public shareholders, an increase in the number of shares of common stock issued to public shareholders in the share exchange and a decrease in the exchange ratio.

The following table shows how the exchange ratio will adjust, based on the number of shares of common stock issued in the offering and the shares of common stock issued and outstanding on the date of this prospectus. The table also shows the number of whole shares of Sound Financial Bancorp common stock a hypothetical owner of Sound Financial, Inc. common stock would receive in exchange for 100 shares of Sound Financial, Inc. common stock owned at the completion of the conversion, depending on the number of shares of common stock sold in the offering.

	New Shares to be Sold in This Offering		New Shares to be Exchanged for Existing Shares of Sound Financial, Inc.		Total Shares of Common Stock to be Outstanding After the Offering	Exchange Ratio	New Shares That Would be Received for 100 Existing Shares
	Amount	Percent	Amount	Percent			
Minimum	1,147,500	54.8%	947,343	45.2%	2,094,843	0.70771	71
Midpoint	1,350,000	54.8%	1,114,521	45.2%	2,464,521	0.83260	83
Maximum	1,552,500	54.8%	1,281,699	45.2%	2,834,199	0.95749	96
Adjusted Maximum	1,785,375	54.8%	1,473,954	45.2%	3,259,329	1.10111	110

No fractional shares of Sound Financial Bancorp common stock will be issued to any public shareholder of Sound Financial, Inc. For each fractional share that would otherwise be issued, Sound Financial Bancorp will pay in cash an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be entitled by the \$10.00 per share purchase price of the common stock in the offering.

Outstanding options to purchase shares of Sound Financial, Inc. common stock also will convert into and become options to purchase shares of Sound Financial Bancorp common stock. The number of shares of common stock to be received upon exercise of these options will be determined pursuant to the exchange ratio. The aggregate exercise price, duration and vesting schedule of these options will not be affected by the conversion. At March 31, 2012, there were 142,455 outstanding options to purchase shares of Sound Financial, Inc. common stock, 71,262 of which have vested. These outstanding options will be converted into options to purchase 101,241 shares of common stock at the minimum of the offering range and 157,519 shares of common stock at the adjusted maximum of the offering range. Because Federal Reserve Board regulations prohibit us from repurchasing our common stock during the first year following the conversion unless compelling business reasons exist, we may use authorized but unissued shares to fund option exercises that occur during the first year following the conversion. If all existing options were exercised from authorized but unissued shares of common stock following the conversion, shareholders would experience

dilution of approximately 4.6% at the minimum and adjusted maximum of the offering range.

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How We Intend to Use the Proceeds From the Offering

Assuming we sell 1,350,000 shares of common stock in the stock offering, and we have net proceeds of \$11.9 million, we intend to distribute the net proceeds as follows:

- \$7.9 million (66.2% of the net proceeds) will be invested in Sound Community Bank;
- \$1.1 million (9.1% of the net proceeds) will be loaned by Sound Financial Bancorp to the employee stock ownership plan to fund its purchase of our shares of common stock; and
- \$2.9 million (24.7% of the net proceeds) will be retained by Sound Financial Bancorp.

We may use the funds that we retain for investments, to pay cash dividends, to repurchase shares of common stock and for other general corporate purposes. Sound Community Bank may use the proceeds it receives to support its lending activities, to develop other products and services and for other general corporate purposes. The net proceeds retained also may be used for future business expansion through opening or acquiring branch offices. We have no current arrangements or agreements with respect to any such acquisitions. Initially, a substantial portion of the net proceeds will be invested in short-term investments and mortgage-backed securities consistent with our investment policy.

Please see [How We Intend to Use the Proceeds from the Offering](#) for more information on the proposed use of the proceeds from the offering.

Our Dividend Policy

Sound Financial, Inc. does not currently pay a cash dividend on its common stock. After the conversion, we intend to pay cash dividends on a quarterly basis, the amount of which will be determined following completion of the conversion, taking into account the total number of shares issued in the conversion and the exchange ratio received by existing public shareholders. The dividend rate and the continued payment of dividends also will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurance can be given that we will pay dividends or that, if paid, we will not reduce or eliminate dividends in the future.

See [Selected Consolidated Financial and Other Data of Sound Financial, Inc. and Subsidiary](#) and [Market for the Common Stock](#) for information regarding our historical dividend payments.

Purchases and Ownership by our Executive Officers and Directors

We expect our directors, executive officers and their associates to purchase 24,500 shares of common stock in the offering. The purchase price paid by them will be the same \$10.00 per share price paid by all other persons who purchase shares of common stock in the offering. After the conversion, as a result of purchases in the offering and the shares they will receive in exchange for shares of Sound Financial, Inc. common stock that they currently own, our directors and executive officers, together with their associates, are expected to beneficially own approximately 215,519 shares of common stock, or 8.6% of our total outstanding shares of common stock, at the midpoint of the offering range.

Benefits to Management and Potential Dilution to Shareholders Resulting from the Conversion

Employee Stock Ownership Plan. Our tax-qualified employee stock ownership plan expects to purchase up to 8% of the shares of common stock we sell in the offering, or 124,200 shares of common stock assuming we sell the maximum number of shares proposed to be sold which, when combined with the existing employee stock ownership plan, will be approximately 8% of the shares outstanding following the conversion. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 10% of the shares of common stock sold in the offering. We reserve the right to purchase shares of common stock in the open market following the offering in order to fund all or a portion of the employee stock ownership plan. Assuming the employee stock ownership plan

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purchases 124,200 shares in the offering, at the maximum of the offering range, we will recognize additional compensation expense, after tax, of approximately \$78,000 annually over a 10-year period, assuming the loan to the employee stock ownership plan has a 10-year term and the shares of common stock have a fair market value of \$10.00 per share for the full 10-year period. If, in the future, the shares of common stock have a fair market value greater or less than \$10.00, the compensation expense will increase or decrease accordingly.

Stock-Based Incentive Plan. We also intend to implement a new stock-based incentive plan no earlier than 12 months after completion of the conversion. Shareholder approval of this plan will be required. If implemented 12 months or more following the completion of the conversion, the stock-based incentive plan is intended to reserve a number of shares equal to 4% of the shares of common stock sold in the offering, or 71,415 shares of common stock at the adjusted maximum of the offering range for awards of restricted stock to key employees and directors, at no cost to the recipients. If the shares of common stock awarded under the stock-based incentive plan come from authorized but unissued shares of common stock, shareholders would experience dilution of up to approximately 2.1% in their ownership interest in Sound Financial Bancorp. If implemented within 12 months or more following the completion of the conversion, the stock-based incentive plan is also intended to reserve a number of shares equal to 10% of the shares of common stock sold in the offering, or 178,537 shares of common stock at the adjusted maximum of the offering range, for issuance pursuant to grants of stock options to key employees and directors. If the shares of common stock issued upon the exercise of options come from authorized but unissued shares of common stock, shareholders would experience dilution of up to 5.2% in their ownership interest in Sound Financial Bancorp. For a description of our current stock-based incentive plans, see Management Executive Compensation and Note 13 of the Notes to Consolidated Financial Statements.

The following table summarizes the number of shares of common stock and the aggregate dollar value of grants that are expected under the new stock-based incentive plan as a result of the conversion. The table also shows the dilution to shareholders if all such shares are issued from authorized but unissued shares, instead of shares purchased in the open market. A portion of the stock grants shown in the table below may be made to non-management employees.

	Number of Shares to be Granted or Purchased(1)		As a Percentage of Common Stock to be Sold in the Offering	Dilution Resulting From Issuance of Shares for Stock-Based Incentive Plans(3)	Value of Grants(2)	
	At Minimum of Offering Range	At Maximum of Offering Range			At Minimum of Offering Range	At Maximum of Offering Range
					(Dollars in thousands)	
Employee stock ownership plan	91,800	124,200	8.0%	NA	\$ 918,000	\$ 1,242,000
Restricted stock awards	45,900	62,100	4.0	2.14%	459,000	621,000
Stock options	114,750	155,250	10.0	5.19%	383,265	518,535
Total	252,450	341,550	22.0%	7.12%	\$ 1,760,265	\$ 2,381,535

(1) The table assumes that the stock-based incentive plan awards a number of options and restricted stock equal to 10% and 4% of the shares of common stock sold in the offering, respectively, and the plan is implemented 12 months or more following completion of the conversion and offering. If implemented within 12 months of the completion of the conversion, the number of shares that may be reserved for grants of restricted stock and stock options cannot exceed 4% and 10%, respectively, of the total number of shares to be outstanding upon completion of the conversion, less the number of shares of restricted stock and stock options (adjusted for the exchange ratio) reserved under previously adopted benefit plans.

(2) The actual value of restricted stock awards will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value for stock awards is assumed to be the same as the offering price of \$10.00 per share. The fair value of stock options has been estimated at \$3.34 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option

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exercise price of \$10.00; an expected option life of 10 years; a dividend yield of 0.0%; a risk free interest rate of 2.23%; and a volatility rate of 19.79%. The actual value of option grants will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately adopted.

(3) Represents the dilution of stock ownership interest. No dilution is reflected for the employee ownership plan because these shares are assumed to be purchased in the offering.

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We may fund our plans through open market purchases, as opposed to new issuances of common stock; however, if any options previously granted under our existing equity incentive plan are exercised during the first year following completion of the offering, they will be funded with newly issued shares since Federal Reserve Board regulations do not permit us to repurchase our shares during the first year following the completion of this offering except to fund the grants of restricted stock under the stock-based incentive plan or, with prior regulatory approval, under extraordinary circumstances.

The following table presents information as of March 31, 2012 regarding our existing employee stock ownership plan, our existing equity incentive plan, our proposed employee stock ownership plan purchases and our proposed stock-based incentive plan. The table below assumes that 2,834,199 shares are outstanding after the offering, which includes the sale of 1,552,500 shares in the offering at the maximum of the offering range, and the issuance of 1,281,699 shares in exchange for shares of Sound Financial, Inc. using an exchange ratio of 0.95749. It also assumes that the value of the stock is \$10.00 per share.

Existing and New Stock-Based Incentive Plans	Participants	Shares	Estimated Value of Shares	Percentage of Shares Outstanding After the Conversion
Existing employee stock ownership plan	Employees	102,315(1)	\$ 1,023,145	3.61%
New employee stock ownership plan	Employees	124,200	1,242,000	4.38
Total employee stock ownership plan		226,515	\$ 2,265,145	7.99
Existing shares of restricted stock	Directors, Officers and Employees	55,326(2)	\$ 553,257(3)	1.95
New shares of restricted stock	Directors, Officers and Employees	62,100	621,000	2.19
Total shares of restricted stock		117,426	\$ 1,174,257	4.14
Existing stock options	Directors, Officers and Employees	136,974(4)	\$ 457,492(5)	4.83
New stock options	Directors, Officers and Employees	155,250	518,535(5)	5.48
Total stock options		292,244	\$ 976,027	10.31
Total of stock-based incentive plans		636,165	\$ 4,415,429	22.44%(6)

(1) Represents shares in the employee stock ownership plan as of March 31, 2012, as adjusted for the exchange ratio at the maximum of the offering range.

(2) Represents shares of restricted stock authorized for grant under our existing equity incentive plan, as adjusted for the exchange ratio at the maximum of the offering range.

(3) The actual value of restricted stock awards will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value is assumed to be the same as the offering price of \$10.00 per share.

(4) Represents shares authorized for grant under our existing equity incentive plan, as adjusted for the exchange ratio at the maximum of the offering range.

(5) The fair value of stock options to be granted under the new stock-based incentive plan has been estimated based on an index of publicly traded thrift institutions at \$3.34 per option using the Black-Scholes option pricing model with the following assumptions; exercise price, \$10.00; trading price on date of grant, \$10.00; dividend yield, 0.0%; expected life, 10 years; expected volatility, 19.79%; and interest rate, 2.23%.

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(6) The number of shares of restricted stock and stock options set forth in the table would exceed regulatory limits if a stock-based incentive plan was adopted within one year of the completion of the conversion and offering. Accordingly, the number of new shares of restricted stock and stock options set forth in the table would have to be reduced such that the aggregate amount of outstanding stock awards would be 4.0% or less and outstanding stock options would be 10.0% or less, unless we obtain a waiver from the Federal Reserve Board, or we implement the incentive plan after 12 months following the completion of the conversion and offering. Our current intention is to implement a new stock-based incentive plan no earlier than 12 months after completion of the conversion and offering.

The value of the restricted shares awarded under the stock-based incentive plan will be based on the market value of our common stock at the time the shares are awarded. The stock-based incentive plan is subject to shareholder approval, and cannot be implemented until at least six months after completion of the offering. The following table presents the total value of all shares that would be available for award and issuance under the new stock-based incentive plan, assuming the market price of our common stock ranges from \$8.00 per share to \$14.00 per share.

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Share Price	45,900 Shares Awarded at Minimum of Range		54,000 Shares Awarded at Midpoint of Range (In thousands, except share price)		62,100 Shares Awarded at Maximum of Range		71,415 Shares Awarded at Adjusted Maximum of Range	
	\$ 8.00	\$ 367	\$ 432	\$ 497	\$ 571			
10.00	459	540	621	714				
12.00	551	648	745	857				
14.00	643	756	869	1,000				

The grant-date fair value of the options granted under the new stock-based incentive plan will be based in part on the price of shares of common stock of Sound Financial Bancorp at the time the options are granted. The value will also depend on the various assumptions used in the option pricing model ultimately adopted. The following table presents the total estimated value of the options to be available for grant under the stock-based incentive plan, assuming the market price and exercise price for the stock options are equal and the range of market prices for the shares is \$8.00 per share to \$14.00 per share.

Exercise Price	Option Value	114,750 Options at Minimum of Range (In thousands, except exercise price and option value)		135,000 Options at Midpoint of Range		155,250 Options at Maximum of Range		178,537 Options at Adjusted Maximum of Range	
		\$ 8.00	\$ 2.67	\$ 306	\$ 360	\$ 415	\$ 477		
10.00	3.34	383	451	519	596				
12.00	4.01	460	541	623	716				
14.00	4.68	537	632	727	836				

The tables presented above are provided for informational purposes only. Our shares of common stock may trade below \$10.00 per share. Before you make an investment decision, we urge you to read this entire prospectus carefully, including, but not limited to, the section entitled **Risk Factors** beginning on page 20.

Limits on How Much Common Stock You May Purchase

The minimum number of shares of common stock that may be purchased in the offering is 25.

The maximum number of shares of common stock that may be purchased by a person or persons exercising subscription rights through a single qualifying deposit account held jointly is 55,000 shares. If any of the following persons purchase shares of common stock, their purchases, in all categories of the offering combined, when aggregated with your purchases, cannot exceed 55,000 shares (\$550,000) of common stock:

- your spouse or relatives of you or your spouse living in your house;

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- companies, trusts or other entities in which you are a trustee, have a controlling beneficial interest or hold a senior position; or
- other persons who may be your associates or persons acting in concert with you.

In addition to the above purchase limitations, there is an ownership limitation for shareholders other than our employee stock ownership plan. Shares of common stock that you purchase in the offering individually and together with persons described above, *plus* any shares you and they receive in exchange for existing shares of Sound Financial, Inc. common stock, may not exceed 5% of the total shares of common stock to be issued and outstanding after the completion of the conversion and offering.

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Subject to Federal Reserve Board approval, we may increase or decrease the purchase and ownership limitations at any time. In the event that the maximum purchase limitation is increased to 5% of the shares sold in the offering, this limitation may be further increased to 9.99%, provided that orders for Sound Financial Bancorp common stock exceeding 5% of the shares sold in the offering shall not exceed in the aggregate 10% of the total shares sold in the offering.

See the detailed description of purchase limitations and definitions of acting in concert and associate in The Conversion and Offering Additional Limitations on Common Stock Purchases.

Steps We May Take if We Do Not Receive Orders for the Minimum Number of Shares

If we do not receive orders for at least 1,147,500 shares of common stock in the subscription, community and/or syndicated community offering, we may take several steps in order to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

- increase the purchase and ownership limitations; and/or
- seek regulatory approval to extend the offering beyond September 14, 2012, provided that any such extension will require us to resolicit subscriptions received in the subscription and community offerings.

Alternatively, we may terminate the offering, return funds with interest and cancel deposit account withdrawal authorizations.

Conditions to Completion of the Conversion

The Federal Reserve Board has conditionally approved the plan of conversion; however, this approval does not constitute a recommendation or endorsement of the plan of conversion by that agency.

We cannot complete the conversion unless:

- The plan of conversion is approved by at least a *majority of votes eligible to be cast* by members of Sound Community MHC (depositors of Sound Community Bank) as of June 27, 2012;

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- The plan of conversion is approved by a vote of at least *two-thirds of the outstanding shares* of common stock of Sound Financial, Inc. as of June 22, 2012, including shares held by Sound Community MHC. (Because Sound Community MHC owns 54.8% of the outstanding shares of Sound Financial, Inc. common stock, we expect that Sound Community MHC and our directors and executive officers effectively will control the outcome of this vote);
- The plan of conversion is approved by a vote of at least *a majority of the outstanding shares* of common stock of Sound Financial, Inc. as of June 22, 2012, excluding those shares held by Sound Community MHC;
- We sell at least the minimum number of shares of common stock offered; and
- We receive the final approval of the Federal Reserve Board to complete the conversion and offering; however, this approval does not constitute a recommendation or endorsement of the plan of conversion by that agency.

Sound Community MHC intends to vote its ownership interest in favor of the plan of conversion. At March 31, 2012, Sound Community MHC owned 54.8% of the outstanding shares of common stock of Sound Financial, Inc. The directors and executive officers of Sound Financial, Inc. and their affiliates owned 177,363 shares (excluding vested options to purchase 52,062 of Sound Financial, Inc.), or 6.0% of the outstanding shares of

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common stock as of March 31, 2012. They have indicated their intention to vote those shares in favor of the plan of conversion.

Market for the Common Stock

Shares of Sound Financial, Inc. common stock currently trade on the OTC Bulletin Board under the symbol SNFL. Upon completion of the conversion, the shares of common stock of Sound Financial Bancorp will replace Sound Financial, Inc.'s existing shares. We expect that Sound Financial Bancorp's shares of common stock will trade on the Nasdaq Capital Market under the trading symbol SFBC following the completion of the offering. In order to list our common stock on the Nasdaq Capital Market, we are required to have at least three broker-dealers who will make a market in our common stock. Keefe, Bruyette & Woods, Inc. intends to become a market maker in our common stock following the stock offering, but is under no obligation to do so. There can be no assurance that an active and liquid trading market for our common stock will develop or, if developed, be maintained. Persons purchasing shares of common stock in the offering may not be able to sell their shares at or above the \$10.00 price per share.

Tax Consequences

As a general matter, the conversion will not be a taxable transaction for federal or state income tax purposes to Sound Community MHC, Sound Financial, Inc., Sound Community Bank, Sound Financial Bancorp, persons eligible to subscribe in the subscription offering, or existing shareholders of Sound Financial, Inc. The position stated above with respect to no tax consequences arising from the issuance or receipt of subscription rights is based upon a reasoned opinion by counsel that subscription rights do not have any ascertainable value at the time of receipt and is supported by a letter from RP Financial to the effect that the subscription rights have no value at the time of receipt or exercise. See The Conversion and Offering Material Income Tax Consequences. Existing shareholders of Sound Financial, Inc. who receive cash in lieu of fractional share interests in shares of Sound Financial Bancorp common stock will recognize a gain or loss equal to the difference between the cash received and the tax basis of the fractional share.

Persons Who May Order Shares of Common Stock in the Offering

Subscription rights to purchase shares of common stock in the subscription offering have been granted in the following descending order of priority:

(i) First, to depositors with accounts at Sound Community Bank with aggregate balances of at least \$50.00 at the close of business on December 31, 2010.

(ii) Second, to our tax-qualified employee benefit plans, including our employee stock ownership plan, which will receive nontransferable subscription rights to purchase in the aggregate up to 10% of the shares of common stock sold in the offering. We expect our employee stock ownership plan to purchase up to 8% of the shares of common stock sold in the offering.

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(iii) Third, to depositors with accounts at Sound Community Bank with aggregate balances of at least \$50.00 at the close of business on March 31, 2012.

(iv) Fourth, to depositors of Sound Community Bank at the close of business on June 27, 2012.

Shares of common stock not purchased in the subscription offering will be offered for sale to the general public in a community offering, with a preference given first to natural persons and trusts of natural persons residing in the Washington counties of Clallam, King, Pierce and Snohomish; and then to Sound Financial, Inc. public shareholders as of June 22, 2012. The community offering will begin concurrently with the subscription offering.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. Shares will be allocated first to categories in the subscription offering in accordance with the plan of

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conversion. A detailed description of share allocation procedures can be found in the section of this prospectus entitled "The Conversion and Offering."

In addition, any shares of our common stock not purchased in the subscription offering or community offering are expected to be offered for sale to the general public in a syndicated community offering through a syndicate of selected dealers. We may begin the syndicated community offering at any time following the commencement of the subscription offering. Keefe, Bruyette & Woods, Inc. will manage the syndicated community offering, which will also be conducted on a best efforts basis. The syndicated community offering will terminate no later than 45 days after the expiration of the subscription offering, unless extended by us with approval of the Federal Reserve Board. Neither Keefe, Bruyette & Woods, Inc., nor any other member of the syndicate is required to purchase any shares in the syndicated community offering. See "The Conversion and Offering" - Syndicated Community Offering.

How You May Purchase Shares of Common Stock

In the subscription and community offerings, you may pay for your shares only by:

- (i) personal check, bank check or money order made payable directly to Sound Financial Bancorp, Inc. ; or
- (ii) authorizing us to withdraw funds from the Sound Community Bank deposit accounts designated on the stock order form.

Sound Community Bank is not permitted to lend funds to anyone for the purpose of purchasing shares of common stock in the offering. **You may not designate withdrawal from accounts with check-writing privileges; instead, please submit a check.** If you request that we directly withdraw the funds from an account with check writing privileges, we reserve the right to interpret that as your authorization to treat those funds as if we had received a check for the designated amount, and we will immediately withdraw the amount from your account. Additionally, you may not use a Sound Community Bank line of credit check or any type of third party check (*i.e.*, a check from another party which is made payable to you) or wire transfer to pay for shares of common stock. Please do not submit cash.

You may purchase shares of common stock in the offering by delivering a signed and completed original stock order form, together with full payment payable to Sound Financial, Bancorp, Inc. or authorization to withdraw funds from one or more of your Sound Community Bank deposit accounts, provided that we *receive* the stock order form before noon, Pacific time, on July 31, 2012, which is the end of the subscription and community offering period. Checks and money orders received prior to the completion of the subscription and community offering will be immediately deposited in a segregated account with Sound Community Bank upon receipt. We will pay interest calculated at Sound Community Bank's regular savings rate from the date funds are processed until completion or termination of the conversion, at which time a subscriber will be issued a check for interest earned. On your stock order form, you may not authorize direct withdrawal from a Sound Community Bank retirement account. If you wish to use funds in an individual or other retirement account to purchase shares of our common stock, please see "Using Retirement Account Funds to Purchase Shares" below.

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Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty. If a withdrawal results in a certificate of deposit account with a balance less than the applicable minimum balance requirement, the certificate of deposit will be canceled at the time of withdrawal without penalty and the remaining balance will earn interest at the current regular savings rate subsequent to the withdrawal. All funds authorized for withdrawal from deposit accounts at Sound Community Bank must be available in the accounts at the time the stock order is received. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you during the offering period. Funds will not be withdrawn from an account until the completion of the conversion and offering and will earn interest within the account at the applicable deposit account rate until that time.

We are not required to accept copies or facsimiles of stock order forms. By signing the stock order form, you are acknowledging both the receipt of this prospectus and that the shares of common stock are not federally

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insured deposits or savings accounts or otherwise guaranteed by Sound Community Bank, Sound Financial Bancorp or the federal or any state governments.

Submitting Your Order in the Subscription and Community Offerings

You may submit your stock order form by overnight courier to the indicated address on the stock order form, by hand delivery to our Stock Information Center, which is located at 2005 5th Avenue, Suite 200, Seattle, Washington, or by mail using the stock order reply envelope provided. Stock order forms also may be delivered to Sound Community Bank's full service banking offices. Once submitted, your order is irrevocable unless the offering is terminated or extended beyond September 14, 2012, or the number of shares of common stock to be sold is increased to more than 1,785,375 shares or decreased to fewer than 1,147,500 shares.

Deadline for Orders of Common Stock in the Subscription or Community Offerings

If you wish to purchase shares of common stock, a properly completed and signed original stock order form, together with full payment for the shares of common stock, must be received (not postmarked) by us no later than noon, Pacific time, on July 31, 2012. **If you choose to deliver your order in the reply envelope provided it must be received at our selling agent's Chicago processing center by the order deadline.** Regardless of postmarks or the length of time you may allow for USPS delivery of your order, your order may be rejected if it is not received by the due date, July 31, 2012. **We encourage you to consider in-person or overnight delivery of your stock order form** to increase the likelihood your order will be received before the deadline.

Once submitted, your order is irrevocable unless the offering is terminated or extended or the number of shares to be issued increases to more than 1,785,375 or decreases to less than 1,147,500. We may extend the July 31, 2012 expiration date, without notice to you, until September 14, 2012. If the offering is extended beyond September 14, 2012 or if the offering range is increased or decreased, we will be required to resolicit purchasers before proceeding with the offering. In either of these cases, purchasers will have the right to maintain, change or cancel their orders. If, in the event of resolicitation, we do not receive a written response from a purchaser regarding any resolicitation, the purchaser's order will be canceled and all funds received will be returned promptly with interest, and deposit account withdrawal authorizations will be canceled. No extension may last longer than 90 days. All extensions, in the aggregate, may not last beyond August 15, 2014.

Although we will make reasonable attempts to provide this prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at noon, Pacific time, on July 31, 2012, whether or not we have been able to locate each person entitled to subscription rights.

TO ENSURE THAT EACH PERSON RECEIVES A PROSPECTUS AT LEAST 48 HOURS PRIOR TO THE EXPIRATION DATE OF THE SUBSCRIPTION AND COMMUNITY OFFERING IN ACCORDANCE WITH FEDERAL LAW, NO PROSPECTUS WILL BE MAILED ANY LATER THAN FIVE DAYS PRIOR TO THE OFFERING EXPIRATION DATE OR HAND-DELIVERED ANY LATER THAN TWO DAYS PRIOR TO THE OFFERING EXPIRATION DATE.

Using Retirement Account Funds to Purchase Shares

Persons interested in purchasing common stock using funds currently in an individual retirement account (IRA) or any other retirement account, whether held through Sound Community Bank or elsewhere, should contact our Stock Information Center for guidance. Please contact the Stock Information Center as soon as possible, preferably at least two weeks prior to the July 31, 2012 offering deadline, because processing such transactions takes additional time, and whether such funds can be used may depend on limitations imposed by the institution where the funds are currently held. Additionally, if such funds are not currently held in a self-directed retirement account, then before placing your stock order, you will need to establish an account with an independent trustee or custodian, such as a brokerage firm. The new trustee or custodian will hold the shares of common stock in a self-directed account in the same manner as we now hold retirement account funds. An annual administrative fee

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may be payable to the new trustee or custodian. Assistance on how to transfer such retirement accounts can be obtained from the Stock Information Center.

If you wish to use some or all of your funds that are currently held in a Sound Community Bank IRA or other retirement account, you may not designate on the stock order form that you wish funds to be withdrawn from the account(s) for the purchase of common stock. Before you place your stock order, the funds you wish to use must be transferred from those accounts to a self-directed retirement account at an independent trustee or custodian, as described above.

Delivery of Stock Certificates

All shares of Sound Financial Bancorp, Inc. common stock being sold will be in book entry form and paper stock certificates will not be issued. Information regarding shares of common stock sold in the subscription and community offerings will be mailed by regular mail to the persons entitled thereto at the certificate registration address noted on the stock order form, within five business days following completion of the conversion and offering. **It is possible that, until this information is delivered, purchasers may not be able to sell the shares of common stock that they ordered, even though the common stock will have begun trading.**

You May Not Sell or Transfer Your Subscription Rights

Federal Reserve Board regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to state that you are purchasing the common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights. We intend to take legal action, including reporting persons to federal agencies, against anyone who we believe has sold or transferred his or her subscription rights. We will not accept your order if we have reason to believe that you have sold or transferred your subscription rights. When registering your stock purchase on the stock order form, you must register the stock in the same name as appearing on the account. You should not add the name(s) of persons who do not have subscription rights or who qualify only in a lower purchase priority than you do. Doing so may jeopardize your subscription rights. In addition, the stock order form requires that you list all deposit accounts, giving all names on each account and the account number at the applicable eligibility date. **Failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, in the event of an oversubscription.**

How You Can Obtain Additional Information Stock Information Center

Our banking office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or offering, please call our information hotline at (877) 860-2091 to speak to a representative of Keefe, Bruyette & Woods, Inc. Representatives are available by telephone Monday through Friday, 7:00 a.m. to 3:00 p.m., Pacific time. You may also meet in person with a representative by visiting our Stock Information Center located in our office at 2005 5th Avenue, Suite 200, Seattle, Washington, between the hours of 9:00 a.m. and 5:00 p.m. Pacific time, beginning on Wednesday, July 25, 2012 until Monday, July 30, 2012, and between the hours of 9:00 a.m. and noon, Pacific time, on Tuesday, July 31, 2012. The Stock Information Center will be closed on weekends and bank holidays.

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EMERGING GROWTH COMPANY STATUS

We are an emerging growth company as defined under the Jumpstart Our Business Startups Act (the JOBS Act). We will remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed \$1 billion, (ii) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the Exchange Act) which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

As an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to:

- not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002 (we also will not be subject to the auditor attestation requirements of Section 404(b) as long as we are a smaller reporting company, which includes issuers that had a public float of less than \$75 million as of the last business day of their most recently completed second fiscal quarter);
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the Securities Act) for complying with new or revised accounting standards. Under this provision, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

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RISK FACTORS

You should consider these risk factors, in addition to the other information in this prospectus, in deciding whether to make an investment in Sound Financial Bancorp stock.

Risks Related to Our Business

Our business is geographically concentrated in the Puget Sound region of Western Washington and changes in economic conditions, particularly a continuing or further economic slowdown in the Seattle, Washington metropolitan area, could hurt our business.

Our business is directly affected by market conditions, trends in industries located in our market area and financial, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation, all of which are beyond our control. As of March 31, 2012, approximately 87% of our loan portfolio was comprised of real estate loans, all of which were secured by property located in Washington State. In 2008, the housing and real estate sectors experienced an economic slowdown that has continued. There have been indications over the past year that the U.S. job market, including the job market in our market area, is improving. Economic conditions in general appear to be stabilizing, as the unemployment rates in two of our four county market area and the state of Washington have decreased since December 31, 2010, which was consistent with the nation as a whole. King County reported an unemployment rate of 7.1% for March 2012, which is lower than the state and national unemployment rates of 8.3% and 8.2%, respectively, as of March 2012. The unemployment rate in Clallam County increased from 10.1% at December 31, 2010 to 11.2% for March 2012, while the unemployment rate in Pierce County increased from 9.2% for December 2010 to 9.8% as of March 2012. Snohomish County reported an unemployment rate of 8.4% as of March 2012 as compared to 9.8% at December 31, 2010. The unemployment rates for Clallam, Pierce and Snohomish Counties all are above the state and national rates as of March 2012.

Although the U.S. economy and job market, including our market area, appears to be improving, further deterioration in economic conditions, particularly within our primary market area within the Puget Sound region in western Washington and Clallam County, Washington, could result in the following consequences, among others, any of which could materially hurt our business:

- loan delinquencies may increase;

- problem assets and foreclosures may increase;

- demand for our products and services may decline;

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- collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing our loans; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Deterioration in the housing real estate market has resulted in and may continue to result in increased loan-to-value ratios on a significant portion of our one- to four-family loans and home equity lines of credit, which exposes us to greater risk of loss.

Economic deterioration throughout 2008 and weakness in the economy since then has been accompanied by continued stress in the housing markets, including declines in home prices. These declines in the housing market, with falling home prices and increasing foreclosures, compounded with weakness in the economy, have resulted in significant increases in our non-performing assets, provision for loan losses and net loan charge-offs. At March 31, 2012, we had \$9.8 million of nonperforming assets, representing 2.81% of total assets, compared to \$9.5 million, representing 2.78% of total assets, and \$5.9 million, representing 1.75% of total assets, at December 31, 2011 and 2010, respectively. For the three months ended March 31, 2012 and the year ended December 31, 2011, our loan loss provision was \$1.5 million and \$4.6 million, respectively, compared to \$4.7 million and \$4.3 million for the years ended December 31, 2010 and 2009, respectively. Net charge-offs during the three months ended March 31, 2012 and the year ended December 31, 2011 totaled \$1.6 million and \$4.6 million, respectively, compared to \$3.7

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million and \$2.1 million for the years ended December 31, 2010 and 2009, respectively. As of March 31, 2012, we maintained a loan loss allowance of \$4.4 million, equal to 1.45% of total loans and 56.28% of non-performing loans. In addition, our losses and expenses on real estate owned and repossessed assets have increased over the last three years from \$461,000 and \$627,000 for the years ended December 31, 2010 and 2009, respectively to \$1.4 million for the year ended December 31, 2011, and totaled \$469,000 for the three months ended March 31, 2012. See Our provision for loan losses and net loan charge-offs have increased significantly in recent years and we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could adversely affect our results of operations and Business of Sound Financial, Inc. and Sound Community Bank Market Area.

Based on information from the Washington Center for Real Estate Research (WCRER), the average home price in the Seattle MSA in 2011 decreased 5.6 % in 2011 from 2010, and 11.2% from 2009. The average home price in Clallam County in 2011 was \$179,000, a 12.3% decrease from 2010 and a 13.3% decrease from 2009. While there were continued indications throughout the past year that the U.S. economy is stabilizing and may be improving, if housing market conditions continue to deteriorate, it may lead to additional charge-offs on our loan portfolio and additional losses and expenses related to our real estate owned as we continue to reassess the market value of the collateral securing our loans, the loss severities of loans in default, and the net realizable value of real estate owned.

Many of our one- to four-family loans and home equity loans and lines of credit are secured by liens on mortgage properties in which the borrowers have little or no equity because of these declines in home values in our market area. Residential loans with high combined loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, they may be unable to repay their loans in full from the sale. Further, the majority of our home equity lines of credit consist of second mortgage loans. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property. For these reasons, we may experience higher rates of delinquencies, default and losses.

Our construction and land loans have a higher risk of loss than residential or commercial real estate loans.

We make real estate construction loans to individuals and builders, primarily for the construction of residential properties. We originate these loans whether or not the collateral property underlying the loan is under contract for sale. At March 31, 2012, construction and land loans in our loan portfolio totaled \$18.2 million or 6.0% of our total loan portfolio of which \$7.6 million were for residential real estate projects. Approximately \$4.6 million of our residential construction loans were made to finance the construction of owner-occupied homes and are structured to be converted to permanent loans at the end of the construction phase. Land and lot loans, which are loans secured by raw land or developed lots on which the borrower intends to build a residence totaled \$8.9 million, and loans secured by land for acquisition and development totaled \$1.2 million at March 31, 2012. In general, construction and land lending involves additional risks because of the inherent difficulty in estimating a property's value both before and at completion of the project as well as the estimated cost of the project. Construction costs may exceed original estimates as a result of increased materials, labor or other costs. In addition, because of current uncertainties in the residential real estate market, property values have become more difficult to determine than they have historically been. Land loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. The value of the lots securing our loans may be affected by the success of the development in which they are located. As a result, construction and land loans often involve the disbursement of funds with repayment dependent, in part, on the success of the project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. These loans are also generally more difficult to monitor. In addition, speculative construction loans to a builder are often associated with homes that are not pre-sold, and thus pose a greater potential risk than construction loans to individuals on their personal residences. At March 31, 2012, \$1.2 million of our construction and land loans were for speculative residential construction loans.

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Our emphasis on commercial real estate lending may expose us to increased lending risks.

At March 31, 2012, we had \$105.3 million of commercial and multi-family real estate mortgage loans, representing 34.8% of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. Commercial and multi-family mortgage loans also expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multi-family real estate loans are not fully amortizing and contain large balloon payments upon maturity. Balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. In addition, many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss.

The level of our commercial and multifamily real estate loan portfolio may subject us to additional regulatory scrutiny.

The OCC, FDIC, and the Federal Reserve have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under this guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development, and other land represent 100% or more of total capital, or (ii) total reported loans secured by multifamily and non-farm residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing.

We have concluded that we have a concentration in commercial real estate lending under the foregoing standards because our \$105.3 million balance in commercial real estate loans at March 31, 2012 represents 300% or more of total capital. While we believe we have implemented policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us.

Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.

At March 31, 2012, we had \$13.3 million or 4.4% of total loans in commercial business loans. Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Our commercial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrower's cash flow may be unpredictable, and

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collateral securing these loans may fluctuate in value. Although commercial loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower.

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Our consumer loan portfolio possesses increased risk.

Our consumer loans accounted for approximately \$28.3 million or 9.3% of our total loan portfolio as of March 31, 2012, of which \$18.0 million and \$10.3 million, respectively, consisted of manufactured home loans and other consumer loans, including automobile loans. Generally, we consider these manufactured home and other consumer loans to involve a different degree of risk compared to first mortgage loans on one- to four-family residential properties. As a result of our large portfolio of these loans, it may become necessary to increase the level of our provision for loan losses, which could decrease our profits. Consumer loans generally entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of loans that are secured by rapidly depreciable assets, such as manufactured homes, automobiles and recreational vehicles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. Manufactured homes are a more risky form of collateral, because they are costly and difficult to relocate when repossessed, and difficult to sell due to the diminishing number of manufactured home parks in the Puget Sound area. Additionally, a good portion of our manufactured home loan borrowers are first-time home buyers, who tend to be a higher credit risk than first-time home buyers of single family residences, due to limited financial resources. As a result, these loans have a higher probability of default, higher delinquency rates and greater servicing costs than other types of consumer loans.

Our loan portfolio possesses increased risk as the result of subprime loans.

Although we do not actively engage in originating subprime loans, through our normal lending practices we held in our loan portfolio at March 31 2012, \$22.7 million in loans identified as subprime at the time loan origination, representing 7.5% of our total loan portfolio. Subprime loans are defined by bank regulators as loans that at the time of loan origination had FICO scores of less than 660. At the time of loan origination, our subprime borrowers had an average FICO score of 631. We obtain updated FICO scores on all our borrowers annually, and based on this updated score, at March 31 2012, \$16.6 million or 5.5% of our total loan portfolio would be deemed subprime. As of March 31, 2012, our subprime portfolio, based on the FICO score at the time of loan origination or modification, included approximately \$14.3 million in one- to four-family mortgage loans (of which \$3.0 million were adjustable rate), \$5.2 million in home equity loans (all of which are adjustable rate), \$2.4 million in manufactured home loans (none of which were adjustable rate) and \$942,000 in other types of consumer loans (of which \$203,000 were adjustable rate). Approximately 91% of our subprime loans were originated prior to 2010, and these loans are managed in the ordinary course of business. Subprime loans are generally considered to have an increased risk of delinquency and foreclosure than do conforming loans, especially when adjustable rate loans adjust to a higher interest rate. Consequently, we could sustain loan losses and potentially incur a higher loan loss provision as a result of these subprime loans. At March 31, 2012, \$590,000 of our subprime loans was categorized as nonaccrual. Net charge offs in our subprime loan portfolio totaled \$854,000 in 2011 and \$441,000 for the three months ended March 31, 2012.

Our provision for loan losses and net loan charge-offs have increased significantly in recent years and we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could adversely affect our results of operations.

For the three months ended March 31, 2012 and year ended December 31, 2011, we recorded a provision for loan losses of \$1.5 million and \$4.6 million, respectively, as compared to \$4.7 million for the year ended December 31, 2010. We also recorded net loan charge-offs of \$1.6 million and \$4.6 million for the three months ended March 31, 2012 and year ended December 31, 2011, respectively, compared to \$3.7 million for the year ended December 31, 2010. We are still recording higher than our historical levels of loan delinquencies and credit losses. Slower sales, excess inventory and declining prices in the housing market have been the primary causes of the increase in delinquencies and foreclosures in our loan portfolio. If current weak conditions in the housing and real estate markets continue, we expect that we will continue to experience further delinquencies and credit losses. As a result, we may be required to make further increases in our provision for loan losses and to charge off additional loans in the future, which could materially adversely affect our financial condition and results of operations.

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Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms, or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the character and creditworthiness of a particular borrower; and
- changes in economic and industry conditions.

We maintain an allowance for loan losses, which we believe is an appropriate reserve to provide for probable losses in our loan portfolio. The allowance is funded by provisions for loan losses charged to expense. The amount of this allowance is determined by our management through periodic reviews and consideration of several factors, including, but not limited to:

- our general reserve, based on our historical default and loss experience, certain macroeconomic factors, and management's expectations of future events;
- our specific reserve, based on our evaluation of non-performing loans and their underlying collateral; and
- an unallocated reserve to provide for other credit losses inherent in our portfolio that may not have been contemplated in the other loss factors.

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The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses we will need additional provisions to replenish the allowance for loan losses. Any additional provisions will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations.

If our nonperforming assets increase, our earnings will be adversely affected.

At March 31, 2012, and December 31, 2011 and 2010, our nonperforming assets (which consist of non-performing loans, including nonperforming troubled debt restructured loans (TDRs), and other real estate owned (OREO) and repossessed assets were \$9.8 million, \$9.5 million and \$5.9 million, respectively, or 2.81%, 2.78% and 1.75% of total assets, respectively. Our nonperforming assets adversely affect our net income in various ways:

- We record interest income only on a cash basis for nonaccrual loans and any nonperforming investment securities; and do not record interest income for OREO;
- We must provide for probable loan losses through a current period charge to the provision for loan losses;

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- Non-interest expense increases when we write down the value of properties in our OREO portfolio to reflect changing market values or recognize other-than-temporary impairment (OTTI) on nonperforming investment securities;
- There are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our OREO; and
- The resolution of nonperforming assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our nonperforming assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations. See Business of Sound Financial, Inc. and Sound Community Bank Asset Quality.

If our OREO is not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed and the property taken in as OREO and at certain other times during the asset's holding period. Our net book value (NBV) in the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess in the asset's NBV over its fair value. If our valuation process is incorrect, or if property values decline, the fair value of our OREO may not be sufficient to recover our carrying value in such assets, resulting in the need for additional charge-offs. Significant charge-offs to our OREO could have a material adverse effect on our financial condition and results of operations.

In addition, bank regulators periodically review our OREO and may require us to recognize further charge-offs. Any increase in our charge-offs may have a material adverse effect on our financial condition and results of operations.

Impairment of our investment securities could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the decline in market value was affected by macroeconomic conditions and whether we have the intent to sell the security or will be required to sell the security before its anticipated recovery. During the three months ended March 31, 2012 and years ended December 31, 2011 and 2010, we recognized a non-cash OTTI charge of \$91,000, \$96, 000 and \$98,000, respectively on securities held in our available-for-sale investments. There can be no assurance that future declines in market value of our investment securities will not result in OTTI of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

Decreased volumes and lower gains on sales of mortgage loans sold could adversely impact our non-interest income.

We originate and sell one- to four-family mortgage loans. Our mortgage banking income is a significant portion of our non-interest income. We generate gains on the sale of one- to four-family mortgage loans pursuant to programs currently offered by Fannie Mae. Fannie Mae accounts for a substantial portion of the secondary market in residential mortgage loans. Any future changes in their programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be

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adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

We use estimates in determining the fair value of certain assets, such as mortgage servicing rights (MSR) . If our estimates prove to be incorrect, we may be required to write down the value of these assets which could adversely affect our earnings.

A substantial portion of our one- to four-family loans are sold into the secondary market. We generally retain the right to service these loans. We have also purchased MSRs to deploy capital at acceptable returns. At March 31, 2012 our MSRs totaled \$2.8 million. We use a financial model that uses, wherever possible, quoted market prices to value our MSRs. This model is complex and also uses assumptions related to interest and discount rates, prepayment speeds, delinquency and foreclosure rates and ancillary fee income.

Valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the model. The primary risk associated with MSRs is that they will lose a substantial portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates. Conversely, these assets generally increase in value in a rising interest rate environment to the extent that prepayments are slower than anticipated. If prepayment speeds increase more than estimated or delinquency and default levels are higher than anticipated we may be required to write down the value of our MSRs which could have a material adverse effect on our net income and capital levels.

We are subject to interest rate risk.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities and (iii) the average duration of our mortgage-backed securities portfolio and other interest-earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. In addition, a substantial amount of our residential mortgage loans and home equity lines of credit have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet. See Management's Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability Management.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

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Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the Washington markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets. Deposit flows, calls of investment securities and wholesale borrowings, and the prepayment of loans and mortgage-related securities are also strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and competition for deposits and loans in the markets we serve. Furthermore, changes to the underwriting guidelines of the FHLB, for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and

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could therefore have a significant adverse impact on our liquidity. A decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill such obligations as repaying our borrowings or meeting deposit withdrawal demands. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity.

Further deterioration in the financial position of the Federal Home Loan Bank of Seattle may result in future impairment losses on our investment in Federal Home Loan Bank stock.

At March 31, 2012, we owned \$2.4 million of stock of the FHLB. As a condition of membership at the FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. Our FHLB stock has a par value of \$100, is carried at cost, and is subject to recoverability testing. The FHLB announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency, or FHFA, its primary regulator, as of December 31, 2008, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. As a result, the FHLB has not paid a dividend since the fourth quarter of 2008. In August 2009, under the FHFA's prompt corrective action regulations, the FHLB received a capital classification of "undercapitalized" and has subsequently remained so classified, due to, among other things, risk-based capital deficiencies as of March 31, 2009 and June 30, 2009, the deterioration in the value of its private-label mortgage-backed securities and the amount of accumulated unrealized losses stemming from that deterioration, and the amount of its retained earnings. On October 25, 2010, the FHLB entered into a consent order with the FHFA. The consent order required, among other matters, the FHLB meet and maintain certain minimum financial requirements. The FHLB has communicated that with the exception of a retained earnings requirement, it is in compliance with the minimum financial requirements and has continued taking the specified actions and is working toward meeting the agreed-upon milestones and timelines for completing capital management, asset composition, and other operational and risk management improvements as indicated in the consent order. As a result, we have not recorded an impairment on our investment in FHLB stock. Further deterioration in the FHLB's financial position may, however, result in future impairment in the value of those securities. We will continue to monitor the financial condition of the FHLB and its compliance with the consent order as it relates to, among other things, the recoverability of our investment.

Strong competition within our market area may limit our growth and profitability.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, we have been competitive by focusing on our business lines in our market area and emphasizing the high level of service and responsiveness desired by our customers. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, brokerage houses, mutual funds, insurance companies and specialized finance companies. Many of our competitors offer products and services which we do not offer, and many have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, and newer competitors may also be more aggressive in terms of pricing loan and deposit products than we are in order to obtain a share of the market. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies, federally insured state-chartered banks and national banks and federal savings banks. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various services. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest earning assets.

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations, including financial reform legislation recently enacted by Congress that is expected to increase our costs of operations.

Sound Community Bank is currently subject to extensive examination, supervision and comprehensive regulation by the OCC and, upon completion of the offering, as a bank holding company Sound Financial Bancorp will be subject to examination, supervision and regulation by the Federal Reserve. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose

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restrictions on an institution's operations, reclassify assets, determine the adequacy of an institution's allowance for loan losses and determine the level of deposit insurance premiums assessed. See Supervision and Regulation.

Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) has significantly changed the bank regulatory structure and will affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on Sound Community Bank and Sound Financial Bancorp. For example, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

In addition, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Financial institutions such as Sound Community Bank with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at minimum they will increase our operating and compliance costs and could increase our interest expense. Any additional changes in our regulation and oversight, in the form of new laws, rules and regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

Legal related costs might continue to increase.

We are subject to a variety of legal matters that have arisen in the ordinary course of our business. In the current economic environment, our involvement in litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. There can be no assurance that our loan workout and other activities will not expose us to additional legal actions, including lender liability or environmental claims. As a result, we may be exposed to substantial liabilities, which could adversely affect our results of operations and financial condition. Moreover, the expenses of legal proceedings will adversely affect our results of operations until they are resolved.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems.

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We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all.

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Risks Related to this Offering

Our stock price may decline when trading commences.

If you purchase shares in the offering you might not be able to sell them later at or above the \$10.00 purchase price. Publicly traded stock, including stock of financial institutions, has recently experienced substantial market price volatility. In several recent transactions, shares of common stock issued by newly converted savings institutions or mutual holding companies have traded below the initial offering price.

The final aggregate purchase price of the shares of common stock in the offering will be based on an independent appraisal and may not be indicative of the actual value of Sound Financial Bancorp.

The appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The valuation is based on estimates and projections of a number of matters, all of which are subject to change from time to time. After our shares begin trading, the trading price of our common stock will be determined by the marketplace and may be influenced by many factors, including prevailing interest rates, the overall performance of the economy, investor perceptions of Sound Financial Bancorp and the outlook for the financial institutions industry in our region and in general.

There may be a limited trading market in our common stock, which would hinder your ability to sell our common stock and may lower the market price of the stock.

Sound Financial Bancorp has never issued stock and, therefore, there is no current trading market for the shares of common stock. While we expect our common stock to be quoted on the Nasdaq Capital Market under the symbol SFBC, we cannot predict whether an active and liquid trading market for our common stock will develop. Persons purchasing shares may not be able to sell their shares when they desire if a liquid trading market does not develop or sell them at a price equal to or above the initial purchase price of \$10.00 per share even if a liquid trading market develops. A limited trading market for our common stock may reduce the market value of the common stock and make it difficult to buy or sell our shares on short notice. A limited trading market could also result in a wider spread between the bid and ask price for the stock, meaning the highest price being offered for shares for sale at any particular time may be further from the lowest price being offered by buyers for the stock at that moment than if the stock were more actively traded (the difference between the bid and ask price being the spread for the stock). This could make it more difficult to sell a large number of shares at one time and could mean the sale of a large number of shares at one time could depress the market price. See Market for the Common Stock.

We have significant discretion over the investment of the offering proceeds and may not be able to achieve acceptable returns on the proceeds from the offering.

Sound Financial Bancorp intends to contribute between \$7.7 million and \$8.1 million of the net proceeds of the offering (or \$8.2 million at the adjusted maximum of the offering range) to Sound Community Bank. We will use a portion of the remaining net proceeds retained to finance the purchase of common stock in the offering by the employee stock ownership plan and may use the remaining net proceeds to pay cash dividends

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to shareholders, repurchase shares of common stock, purchase securities, and for other general corporate purposes. Sound Community Bank may use the proceeds it receives to support its lending activities, to develop other products and services and for other general corporate purposes. The net proceeds retained also may be used for future business expansion through acquisitions of banks, thrifts and other financial services companies, and opening or acquiring branch offices. We have not, however, identified specific amounts of proceeds for any of these purposes and we will have significant flexibility in determining the amount of net proceeds we apply to different uses and the timing of these applications. Our failure to utilize these funds effectively could reduce our profitability. We have not established a timetable for the effective deployment of the proceeds on a long-term basis, and we cannot predict how long we will need to deploy the proceeds effectively. Investing the offering proceeds in securities until we are able to deploy the proceeds will provide lower margins than we generally earn on loans, potentially adversely affecting shareholder returns, including earnings per share, return on assets and return on equity.

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Our return on equity initially will be low compared to our historical performance. A lower return on equity may negatively impact the trading price of our common stock.

Net income divided by average shareholders' equity, known as return on average equity, is a ratio many investors use to compare the performance of a financial institution to its peers. Our return on average equity ratio for the three months ended March 31, 2012 and the year ended December 31, 2011 was 7.42% and 5.50%, respectively, compared to a median return on equity of 3.42% based on trailing twelve-month earnings for all publicly traded fully converted savings institutions as of March 31, 2012. Although we expect that our net income will increase following the offering, our return on average equity may decrease as a result of the additional capital that we will raise in the offering. For example, our pro forma return on equity for the three months ended March 31, 2012 and the year ended December 31, 2011 was 4.95% and 3.41%, respectively, assuming the sale of shares at the maximum of the offering range. Over time, we intend to use the net proceeds from the offering to increase earnings per share and book value per share, without assuming undue risk, with the goal of achieving a return on equity that is comparable to our historical performance. This goal may take a number of years to achieve, and we cannot assure you that we will be able to achieve it. Consequently, you should not expect a return on equity similar to our current return on equity in the near future. Failure to achieve a competitive return on equity may make an investment in our common stock unattractive to some investors and may cause our common stock to trade at lower prices than comparable companies with higher returns on equity. See Pro Forma Data for an illustration of the financial impact of the offering.

The implementation of the stock-based incentive plan may dilute your ownership interest.

We intend to adopt a new stock-based incentive plan following the offering, subject to receipt of shareholder approval. This stock-based incentive plan may be funded either through open market purchases or from the issuance of authorized but unissued shares of common stock of Sound Financial Bancorp. While our intention is to fund this plan through open market purchases, shareholders would experience a 7.1% reduction in ownership interest at the adjusted maximum of the offering range in the event newly issued shares of our common stock are used to fund stock options and shares of restricted common stock under the plan in an amount equal to up to 10.0% and 4.0%, respectively, of the shares sold in the offering. See Pro Forma Data and Management Benefits to Be Considered Following Completion of the Conversion.

Additional expenses following the conversion from the compensation and benefit expenses associated with the implementation of the new stock-based incentive benefit plan will adversely affect our profitability.

We intend to adopt a new stock-based incentive plan after the offering, subject to shareholder approval, pursuant to which plan participants would be awarded restricted shares of our common stock (at no cost to them) and options to purchase shares of our common stock in an amount equal to up to 4.0% and 10.0%, respectively, of the shares sold in the offering. Following the offering, our non-interest expenses are likely to increase as we will recognize additional annual employee compensation and benefit expenses related to the shares granted to employees and executives under our stock-based incentive plan. We cannot predict the actual amount of these new stock-related compensation and benefit expenses because applicable accounting practices require that expenses be based on the fair market value of the shares of common stock at specific points in the future; however, we expect them to be material. In addition, we will recognize expense for our employee stock ownership plan when shares are committed to be released to participants' accounts (i.e., as the loan used to acquire these shares is repaid), and we will recognize expense for restricted stock awards and stock options over the vesting period of awards made to recipients. The expense in the first year following the offering has been estimated to be approximately \$171,000 (\$108,000 after tax), assuming all options are granted under the plan, at the adjusted maximum of the offering range as set forth in the pro forma financial information under Pro Forma Data, assuming the \$10.00 per share purchase price as fair market value. Actual expenses, however, may be higher or lower, depending on the price of our common stock. See Pro Forma Data and Management Benefits to Be Considered Following Completion of the Conversion.

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We believe the net proceeds of this offering will be sufficient to permit Sound Community Bank to maintain regulatory capital compliance for the foreseeable future. Nonetheless, we may at some point need to raise additional capital to support continued growth.

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Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, if we are unable to raise additional capital when required by the Federal Reserve or the OCC, we may be subject to adverse regulatory action. See [Supervision and Regulation](#).

Various factors may make takeover attempts more difficult to achieve.

Our Board of Directors has no current intention to sell control of Sound Financial Bancorp. Provisions of our articles of incorporation and bylaws, federal regulations, Maryland law, shares of restricted stock and stock options that we have granted or may grant to employees and directors, the level of stock ownership by our management and directors and employment agreements that we have entered into with our executive officers, and various other factors may discourage attempts or make it more difficult for companies or persons to acquire or assume control of Sound Financial Bancorp without the consent of our Board of Directors. Our shareholders may want a takeover attempt to succeed because, for example, a potential acquirer could offer a premium over the then prevailing price of our common stock or they might otherwise think such a transaction is in their best interests. For additional information, see [Restrictions on Acquisition of Sound Financial Bancorp](#), [Management Employment Agreements](#), and [Benefits to be Considered Following Completion of the Conversion](#).

There may be a decrease in shareholders' rights for existing shareholders of Sound Financial, Inc.

As a result of the conversion, existing shareholders of Sound Financial, Inc. will become shareholders of Sound Financial Bancorp. Some rights of shareholders of Sound Financial Bancorp will be reduced compared to the rights shareholders currently have in Sound Financial, Inc. The reduction in shareholder rights results from differences between the federal and Maryland charters and bylaws, and from distinctions between federal and Maryland law. Many of the differences in shareholder rights under the articles of incorporation and bylaws of Sound Financial Bancorp are not mandated by Maryland law but have been chosen by management as being in the best interests of Sound Financial Bancorp and its shareholders. The articles of incorporation and bylaws of Sound Financial Bancorp include the following provisions: (i) approval by at least a majority of outstanding shares required to remove a director for cause; (ii) greater lead time required for shareholders to submit proposals for new business or to nominate directors; and (iii) approval by at least 80% of outstanding shares of capital stock entitled to vote generally is required to amend the bylaws and certain provisions of the articles of incorporation. See [Comparison of Shareholders' Rights For Existing Shareholders of Sound Financial, Inc.](#) for a discussion of these differences.

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**SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
OF
SOUND FINANCIAL, INC. AND ITS SUBSIDIARY**

The summary financial information presented below is derived in part from the consolidated financial statements of Sound Financial, Inc. and its subsidiary. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. The information at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 is derived in part from the audited consolidated financial statements of Sound Financial, Inc. that appear in this prospectus. The information at for the year ended December 31, 2009 is derived in part from audited consolidated financial statements that do not appear in this prospectus. The unaudited consolidated financial statements as of March 31, 2012 and for the three months ended March 31, 2012 and 2011, included herein reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results of the interim periods presented. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results of operations that may be expected for the entire year. The following information is only a summary and you should read it in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and notes thereto contained elsewhere in this prospectus.

	At March 31, 2012	2011	At December 31, 2010	2009
	(In thousands)			
Selected Financial Condition Data:				
Total assets	\$ 348,697	\$ 339,740	\$ 334,639	\$ 337,806
Cash and cash equivalents	25,409	17,031	9,092	15,679
Loans receivable, net	296,393	295,641	294,810	286,357
Loans held for sale	1,139	1,807	901	2,858
Available for sale securities (at fair value)	3,035	2,992	4,541	9,899
Deposits	307,776	299,997	278,494	287,564
Borrowings	8,346	8,506	24,849	20,000
Stockholders' equity	29,466	28,713	26,903	25,068

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2012	2011	2011	2010	2009
	(In thousands)				
Selected Operations Data:					
Total interest income	\$ 4,563	\$ 4,648	\$ 18,519	\$ 19,314	\$ 19,128
Total interest expense	601	752	2,781	4,288	7,057
Net interest income	3,962	3,896	15,738	15,026	12,071
Provision for loan losses	1,500	825	4,600	4,650	4,275
Net interest income after provision	2,462	3,071	11,138	10,376	7,796
Service charges and fee income	550	522	2,052	2,182	2,081
Mortgage servicing income	177	135	418	624	867
Fair value adjustment on mortgage servicing rights	384	(1)	(422)	103	125
Gain on sale of loans and securities, net	251		467	849	430
Other-than-temporary impairment losses on securities	(91)	(39)	(96)	(98)	(61)
Gain on purchase of branches					227
Other noninterest income	66	62	173	266	267
Total noninterest income	1,337	679	2,592	3,926	3,936
Salaries and benefits	1,282	1,466	4,997	5,864	5,700
Net loss and expenses on OREO	469	139	1,394	461	627

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Other noninterest expense	1,257	1,427	5,140	6,101
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