



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

March 13, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Eastern National Bank
Charter Number 15748**

**799 Brickell Plaza
Miami, FL 33131**

**Comptroller of the Currency
South Florida (miami)
9800 Northwest 41st Street Suite 120
Miami, FL 33178**

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

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- Since the last examination, the bank's average quarterly loan-to-deposit ratio is satisfactory.
- A substantial majority of loan originations are within the bank's assessment area.
- The distribution of loans among businesses of different sizes and borrowers of different income levels is satisfactory.
- The geographic distribution of loans reflects a satisfactory distribution throughout the assessment area.
- The level and responsiveness of community development lending, investments and services is good and had a positive impact on the bank's assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests. The evaluation period ranged from September 9, 2002, the date of the last CRA examination, to March 13, 2006. However, the Lending Test concentrated on activity from January 1, 2004 to February 28, 2006.

In evaluating the bank's lending performance, we reviewed loans to businesses, the bank's primary loan product. We also reviewed single-family home purchase loans, which represent the majority of the bank's Home Mortgage Disclosure Act (HMDA) loans and is the bank's primary CRA product. Of the 106 HMDA reportable loan originations in the analysis period, 75, or 71%, were single-family home purchase loans.

Prior to September 1, 2005, the bank was considered a large bank under the CRA and required to report loans to businesses. Those reported loans to businesses were analyzed for 2004. In 2005, the bank elected to be examined as a Small Intermediate Bank under the CRA and was no longer required to report loans to businesses. However, the bank continued to gather (but not report) data relative to loans to businesses for 2005 and 2006. These reports were used for our analysis.

This evaluation is based on accurate data. Loan reports and community development loans, investments, and services submitted by bank management were verified to ensure accuracy and that they met the regulatory definition for community development, where applicable.

DESCRIPTION OF INSTITUTION

Eastern National Bank (ENB) is an intrastate community bank headquartered in Miami, Florida. The bank is owned by Mercorp, N.V. (Mercorp), a Netherlands Antilles corporation. In turn, Mercorp is owned by Corpofin, C.A., which is controlled by the Venezuelan government as a consequence of the government's intervention in Corpofin. The bank has no operating subsidiaries or affiliates. It operates five branches in Miami-Dade County including two in the City of Miami, and one each in Hialeah, Coral Gables, and Kendall.

The bank offers a variety of deposit and loan products for businesses and individuals, as described in the CRA Public File. However, the bank's primary lending strategy is loans to businesses, including international trade finance. As of December 31, 2005, total loans, which represent 78% of total assets, equaled \$297 million and consisted of 31% commercial real estate loans, 21% residential real estate loans (including 1 to 4 family loans and multi-family loans), 20% international trade finance, 18% construction loans, 7% commercial and industrial loans, and 3% other loans (including consumer loans). To assist in meeting its obligations under the CRA, the bank developed a First Time Homebuyer mortgage loan product for low- and moderate-income individuals and families. This product is frequently used in conjunction with a homebuyer subsidy program offered by Miami-Dade County.

As of December 31, 2005 the bank had total assets of \$379 million and Tier 1 capital of \$41 million. Total deposits equaled \$301 million. It is important to note that 45% of the bank's deposits are from foreign customers, primarily residing in Venezuela. However, loans outside the United States represent only about 30% (\$89 million) of the bank's total loan portfolio, indicating that portions of domestic loans are funded with foreign deposits. Our evaluation of the bank's performance takes this factor into consideration.

There are no legal, financial, or other factors to impede the bank's ability to meet the credit needs in its assessment area. At its last CRA examination, dated September 9, 2002, the bank was rated satisfactory. At that time, the bank was evaluated using the Large Bank CRA Examination procedures. This is the bank's first examination using the Intermediate Small Bank CRA Examination procedures.

DESCRIPTION OF THE ASSESSMENT AREA

ENB's assessment area is comprised of all of Miami-Dade County, which is equivalent to Metropolitan Division 33124 (Miami-Miami Beach-Kendall, FL). The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

Based on the 2000 Census, the assessment area consists of 347 census tracts of which 27 (8%) are low-income, 99 (29%) are moderate-income, 114 (33%) are middle-income, and 104 (30%) are upper-income. The greatest concentration of low- and moderate-income tracts can be found in the City of Miami.

The assessment area is a densely populated urban center, and according to the 2000 Census, the total population is 2.25 million. Of the 852,000 housing units in the assessment area, 53% are owner-occupied. The largest concentrations of owner-occupied housing units are in the middle- and upper-income geographies. However, in the low- and moderate-income geographies, the level of renter occupancy is high (69% and 56%, respectively). These geographies also represent high levels of households below the poverty level (47% and 27%, respectively), indicating a need for affordable rental housing. The inventory of rental units however continues to decline as many buildings are being converted to condominiums to take advantage of rising housing prices. The need for affordable housing in the assessment area is considered critical by a governmental agency contacted as part of this examination.

Housing costs in Miami-Dade County are high. In 2004, the National Association of Realtors estimated the median sales price of an existing single-family home in the Miami Metropolitan area to be approximately \$300,000. By August 2005, that figure had risen to \$356,900. When prices are compared with the county's HUD Adjusted Median Family Income figures (\$45,400 for 2004 and \$46,350 for 2005) it is clear that the unsubsidized purchase of an average single-family residence would be beyond the financial means of many low-or moderate-income individuals and families. However, after the hurricane season of 2005, which heavily damaged major portions of the county, housing prices stabilized and in some cases declined slightly. The impact of the hurricanes was greatest in the low- and moderate-income areas of Miami-Dade County, where the housing units are the least stable and easily subject to wind and rain damage. This damage put additional stress on the already short supply of affordable housing.

The Miami-Dade economy is diverse. Major industries include real estate development, trade businesses with Latin America, tourism and banking. There are many service businesses in the area as well. The proximity of the Caribbean, Central and South America plus superior seaport and airport capabilities provide this area with a distinct advantage as a global trading center. There are approximately 240 thousand businesses in Miami-Dade County of which at least 62% are considered to be small business, based on revenue size. The majority (73%) of businesses are concentrated in the County's middle-and upper-income geographies.

Banking competition within the assessment area is intense. In addition to community and mid-size banks, branches of the largest banks in the country, and their mortgage affiliates, operate in Miami-Dade County. As of June 30, 2005, there were 76 banks in Miami-Dade County operating 584 branches. In terms of deposits, ENB is ranked 33rd, with a deposit market share of .43%.

There are a wide range of opportunities for community development lending, investments, and services throughout the bank's Miami-Dade assessment area. However, larger institutions in the assessment area are quite competitive for the qualified investments and loans that are available. Community development opportunities include working with and providing financing to the numerous organizations whose mission is to provide affordable housing and/or community services for low- and moderate-income persons, as well as organizations with a mission of economic development. There is a federally designated Empowerment Zone that targets economic development with the goal of revitalizing the area by stimulating and retaining jobs. There are 20 areas designated as Targeted Urban Areas ("TUA") that are the focus for the Urban Economic Revitalization Plan for Miami-Dade County. Types of community development

investments available in the assessment area include, but are not limited to, bond and tax credit purchases for low- and moderate-income housing, participation in numerous local Community Development Financial Institutions (“CDFIs”) and opportunities to contribute to qualified non-profit organizations whose missions are focused on providing affordable housing, community services for low- and moderate-income persons, and economic development.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank’s performance under the Lending Test is rated “Satisfactory”.

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio meets the standard for satisfactory performance. ENB’s loan-to-deposit ratio is reasonable given the institution’s size, financial condition, assessment area credit needs, and performance context factors related to the level of foreign deposits and loans, as discussed in the “Description of Institution”.

The bank’s quarterly average loan-to-deposit ratio since the last CRA examination is 87%. This ratio exceeds the 77% quarterly average ratio for five similarly situated banks operating within the bank’s assessment area. ENB’s ratio also exceeds the 79% average quarterly ratio for a national peer group of similarly sized banks.

Lending in Assessment Area

Lending in the assessment area exceeds the standard for satisfactory performance. A substantial majority of loan originations are in the bank’s assessment area. Overall, 91% of loans by number and 87% by dollar of loans originated during the evaluation period were originated in ENB’s assessment area. Of the loans originated outside the bank’s assessment area, almost all were originated in adjacent Broward County.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	150	90	17	10	167	28,994	84	5,466	16	34,460
Home Purchase	70	92	6	8	76	18,403	92	1,563	8	19,966
Totals	220	91	23	9	243	47,397	87	7,029	13	54,426

Source: Data reported under HMDA and bank small business loan origination reports. Home purchase loans include single-family purchases only. (\$000 omitted)

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, the distribution of borrowers meets the standard for satisfactory performance, given the

demographics of the assessment area.

The distribution of loans to businesses of different sizes is reasonable. The level of the bank’s loans to small businesses (businesses with revenues of \$1 million or less) is lower than the level of small businesses in the assessment area. A majority (74%) of the bank’s loans to small businesses (regardless of revenue) are for amounts of \$250 thousand or less.

Table 2 – Borrower Distribution of Loans to Businesses in Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	61.72	4.90	33.38	100%
% of Bank Loans in AA by #	42.67	43.33	14.00	100%
% of Bank Loans in AA by \$	38.21	55.26	6.53	100%

Source: Bank’s small business loan origination reports; Dunn and Bradstreet data 2005.

The distribution of residential mortgage loans to borrowers of different income levels is more than reasonable, given available opportunities and the size and capacity of the bank. The percentage of the bank’s loans to low-income borrowers is less than the percentage of low-income families in the assessment area. However, as discussed in the “Description of the Assessment Area”, high housing costs and high poverty levels make it very difficult for any lender to originate residential mortgage loans to low-income borrowers. The bank’s percentage of loans to moderate-income borrowers exceeds the level of such borrowers in the assessment area. The overall geographic distribution performance for home purchase loans is reflective of the bank’s targeted home purchase mortgage loan product offered in conjunction with the Miami-Dade County Housing Authority. During the evaluation period, the bank originated 25 such loans, which are included in the analysis below.

Table 2 A- Borrower Distribution of Residential Real Estate Loans in the Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	23.00	12.86	16.98	21.43	18.53	8.57	41.50	48.57

Source: Data reported under HMDA and 2000 U.S. Census data. Home Purchase loans include single-family purchases only. In addition, 8.57% of loans did not have income information available because they were originated to business entities, not individuals. Therefore, income is not reported under the HMDA.

Geographic Distribution of Loans

Overall, the geographic distribution of loans throughout the assessment area meets the standard for satisfactory performance, given the demographics of the assessment area.

The geographic distribution of loans to businesses is reasonable. In both low- and moderate-income geographies, the percentage of the bank’s loan originations is lower than the level of businesses located there. This is a function of the geographic distribution of the bank’s branches. None of the bank’s branches are located in a low- or moderate-income geography.

Table 3 - Geographic Distribution of Loans to Businesses in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Loans to Businesses	5.10	3.33	22.29	14.67	32.53	32.00	40.07	50.00

Source: Bank small business loan origination reports; D & B data 2005.

The geographic distribution of home purchase loans is more than reasonable. The percentage of the bank’s loans in low-income geographies exceeds the percentage of owner-occupied housing units in those geographies. The percentage of loans in moderate-income geographies significantly exceeds the level of owner-occupied housing units in such geographies. As noted previously, this performance is the result of the bank’s special mortgage loan program.

Table 3 - Geographic Distribution of Residential Real Estate Loans in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.69	5.71	19.82	41.43	36.99	17.14	41.51	35.71

Source: Data reported under the HMDA: 2000 U.S. Census data. Home purchase loans include single-family home purchase loans only.

Reponses to Complaints

The bank has not received any complaints regarding its CRA performance since the last examination.

Community Development Test

The bank’s performance under the Community Development Test is rated “Satisfactory”.

The bank’s community development performance demonstrates good responsiveness to

community development needs in its assessment area through community development loans, qualified investments, and community development services, considering the bank's capacity and the need and availability of opportunities for community development in the bank's assessment area.

Number and Amount of Community Development Loans

Considering the bank's capacity, ENB had an excellent level of community development loans. During the evaluation period, ENB originated nine community development loans totaling \$6.6 million. Of the loans, seven loans totaling \$5 million benefited the bank's assessment area. The bank received positive consideration for two community development loans totaling \$1.6 million that are outside its assessment area because the bank reasonably meets community development needs in its assessment area.

All community development loans supported affordable housing initiatives for low-and moderate-income individuals and families. Proceeds from five in assessment area community development loans totaling \$4.9 million were used to either purchase or improve at least 81 affordable rental units in the bank's assessment area. In addition to these direct community development loans, the bank has two in assessment area community loans that represent the bank's pro-rata share of loans made by a lending consortium. The consortium makes financing available to non-profit community development corporations (CDCs) for the construction of affordable housing in the bank's assessment area. The bank's loans are participations in construction loans that will provide 323 units of new affordable rental housing.

Of the two out of assessment area community development loans, one for \$1.5 million provided for the acquisition of 73 units of affordable rental housing in adjacent Broward County. These units will be converted to owner-occupied condominium units that are affordable to moderate-income individuals and families. The other out of assessment area community development loan represents the bank's participation in loans originated by the above-mentioned CDC. It represents the bank's share of a loan for the construction of 102 affordable rental units in Key West.

Number and Amount of Qualified Investments

Considering the bank's capacity, ENB had a good level of qualified community development investments. During the evaluation period, the bank made 17 investments totaling \$2 million.

The majority (39%) of the bank's investments during the evaluation period are mortgage-backed securities, for which the collateral is nine mortgage loans to low- and moderate-income borrowers in the bank's assessment area. Mortgage-backed securities are important because they provide needed liquidity to lending institutions so that additional mortgages can be funded.

Approximately 34% of investments represent deposits (initial and annual renewals) in two certified Community Development Financial Institutions (CDFI) located in Miami. The CDFIs offer low cost banking services, both deposit and loan, to low-and moderate-income members.

Two investments totaling \$500 thousand, or 25% of total investments, are in an investment fund that specializes in CRA qualified investments. The first investment of \$250 thousand is allocated to a security backed by a mortgage on a 160-unit affordable senior citizen housing complex in a low-income geography of Miami-Dade County. The second \$250 thousand investment is allocated to a security backed by a mortgage on a 66-unit affordable rental complex that qualified for Low-Income Housing Tax Credits and is located in Miami-Dade County.

The remaining investments represent the bank's investment in two community development corporations (CDCs) that provide financing for the construction of owner-occupied and rental housing that is affordable to low-and moderate-income individuals and families in Miami-Dade County. In one instance, member investments are used to operate the CDC. In the other, the investment is used to fund a loan pool for small business loans originated by the CDC.

The bank also has two investments that were made before the evaluation period that are still on the books of the bank. These prior period investments total \$22,500. Both are investments in certified CDFIs. One operates a revolving loan fund for residents of low- and moderate-income communities to start or expand a small business. The other operates a CDC that finances the construction of housing that is affordable to low- and moderate-income individuals and families.

Extent to which the Bank Provides Community Development Services

The bank provides an adequate level of community development services through its branches, products, and activities with local organizations that support qualified community development activities.

Of ENB's five branches, none are located in a low-or moderate-income geography. However, the Hialeah branch is located in a middle-income geography and is easily accessible to three adjacent moderate-income geographies. Three branches, including the one in Hialeah, offer ATM services.

The bank offers a variety of consumer and commercial banking products and services. Of particular importance to low- and moderate individuals and families is the First Time Homebuyer Mortgage product previously discussed. The product offers extended terms, flexible ratios, and reduced fees. The bank has successfully delivered this product through direct contact with affordable housing developers and local CDCs. In addition, the Residential Loan Department has conducted seminars and one-on-one counseling for low-and moderate-income borrowers participating in Miami-Dade County's first time homebuyer subsidy program.

Also, a bank officer serves on the loan committee of a certified minority small business CDFI that provides micro-loans to small businesses in Miami and management expertise through its Business Assistance Center. In addition, bank staff provided a financial education program to third-grade students at an elementary school located in a moderate-income geography of Miami.

Bank's Responsiveness, through Community Development Activities, to Community Development Lending, Investment, and Services Needs

The bank's community development activities are highly responsive to the assessment area's most critical need--affordable housing. Community contacts consistently rank affordable housing as the most pressing need in Miami-Dade County. Housing prices have risen significantly over the past several years, far in excess to increases in family income, making affordable housing an even more significant issue. The bank's community development loans, investments, and services help to provide affordable housing alternatives to low- and moderate-income persons in the bank's assessment area.

Fair Lending or Other Illegal Credit Practices Review

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