



Small Bank Performance Evaluation

PUBLIC DISCLOSURE

September 21, 1998

**COMMUNITY REINVESTMENT ACT PERFORMANCE
EVALUATION**

**Peoples National Bank of Niceville
Charter Number 21041**

**1020 John Sims Parkway
Niceville, FL 32578**

Office of the Comptroller of the Currency
Birmingham Field Office
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NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Peoples National Bank of Niceville** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 21, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- Peoples National Bank of Niceville (PNBN) maintains a reasonable loan-to-deposit ratio compared to other local banks.
- The majority of loans were originated to borrowers within the assessment area.
- Lending to borrowers of different income groups and businesses of different sizes is reasonable given the demographics of the community.
- The geographic distribution of loans reflects a satisfactory penetration of geographies within the assessment area.

The following table indicates the performance level of Peoples National Bank of Niceville with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Peoples National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	There were no CRA-related complaints received during the evaluation period		

DESCRIPTION OF INSTITUTION

Peoples National Bank of Niceville (PNBN) was chartered in 1986. The bank consists of one office and is located in Niceville, Okaloosa County, Florida. PNBN had total assets of \$83 million as of September 30, 1998. The bank's main loan products are residential and commercial loans. As of September 30, 1998, loans for home purchases, home improvement and home equity represented 31% of total loans outstanding. Loans to businesses represented 30% of total loans outstanding. There are no financial, legal or other factors that would impede the bank's ability to meet the credit needs of its assessment area. The last CRA examination for PNBN was completed August 14, 1995.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank has designated its assessment area as the cities of Niceville and Valparaiso in Okaloosa County, and a small area within Walton County. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Contact with local community organizations identified a need for affordable housing, particularly for military personnel, within the bank's assessment area. There is also a need for commercial loans for small businesses. The major employers in the area include: Eglin Air Force Base, the school district, and small businesses in the area. Banking competition is strong from major regional bank presence, credit unions and a few locally-based community banks. Because the geographies between counties are distinct, some analysis of the assessment area is done separately. A brief description of each of the areas by county is as follows.

Okaloosa County: The assessment area includes 5 of the census tracts located in this county which is within the Fort Walton Beach Metropolitan Statistical Area (MSA #2750). Niceville and its twin city, Valparaiso, mainly comprise these census tracts. Two of the tracts are upper-income, 2 are middle-income and 1 is lower-income. This is based on the 1990 Census median income of \$31,663. The updated 1998 median family income is \$39,990. The total population of the MSA is 143,776. The population within the bank's assessment area in Okaloosa County is 34,924. This area is located in the Florida Panhandle near the gulf coast. A large part of the economy is driven by tourism and related services. However, in Niceville and Valparaiso, there is also significant employment in the retail and light manufacturing industries. The county is also home to *Eglin* Air Force Base, Hurlburt Field and Duke Field, which have a significant impact on the local economy and the composition of population as many of the residents are military personnel. County unemployment is low at 3%.

Walton County: The bank's assessment area includes 2 block numbering areas (BNAs) immediately East of Okaloosa County extending to the Choctawhatchee River. The geographies are separated into BNAs as opposed to census tracts, because this county is not in an MSA. Both of these BNAs are designated middle-income. This is based on the 1990 Census median income of \$25,875 for non-metropolitan areas in Florida. The updated 1998 median family income is \$33,300. The bank services this portion of Walton County because of the very limited number of banks in this more rural area. In addition, Niceville provides many job opportunities to individuals in the Walton County area, and many of these residents work at Eglin Air Force Base. Of all residential loans originated by the bank during this evaluation period, 17% were originated in Walton County.

¹ Source: Housing and Urban Development (HUD)

The total population of Walton County is 27,760. County unemployment is 4%. Similar to Okaloosa County, tourism, retail trade and related services are major industries. Other information specifically

relevant to the bank's assessment area within Walton County is not available.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

• Loan to Deposit Ratio

PNBN maintains a reasonable loan-to-deposit ratio compared to other local banks. The bank had an average loan-to-deposit (LTD) ratio of 57.95% for the evaluation period. While this ratio is below the national peer average, it compares to other local banks under \$100 million (headquartered in Okaloosa County) with an average LTD ratio of 60.40%. In addition, PNBN's LTD ratio is affected by the selling of 25% to 50% of all the residential loans originated by the bank into the secondary market. Specifically, the bank sold approximately \$8 million in residential loans in the secondary market as of September 30, 1998 year-to-date. These residential loans sold into the secondary market would have helped to improve the bank's LTD ratio, if they remained on this bank's books.

• Lending in Assessment Area

The bank makes the majority of its loans within the assessment areas. Our findings showed that the bank made 70% of its residential loans within the assessment area. This conclusion is based on an analysis of residential loans reported in accordance with the Home Mortgage Disclosure Act (HMDA) originated January 1996 through September 1998. Residential lending is the bank's primary loan product and representative of the bank's lending patterns.

Our analysis focused on all loans originated in Okaloosa County during this time frame. Also, we reviewed a representative sample of 30 loans (or 33% of loan originations) made in Walton County during this same time period. Our analysis of loans made in Walton County was limited to sampling, due to the bank choosing, as permitted, to not report or collect Block Numbering Areas (BNAs) on the HMDA loan application register. Therefore, we were not able to determine the actual amount of loans originated by BNA in Walton County. (See the prior description of the Walton County area for more detail about BNAs).

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

Lending to borrowers of different income is reasonable given the demographics of the community. We analyzed borrower income data collected in accordance with the Home Mortgage Disclosure Act (HMDA) for residential loans. The data was compared to the income distribution of families in each assessment area, using updated 1998 median family income levels.

A summary of our findings is presented below.

Income Level	Okaloosa County Area		Walton County Area	
	Loan Distribution	Families in Assessment Area	Loan Distribution	Families in Assessment Area
Low Income	3.67%	10.32%	19.23	23.19%
Moderate Income	17.89%	16.63%	15.38	17.58%
Middle Income	20.64%	21.86%	15.38	25.02%
Upper Income	52.75%	51.19%	42.31	34.22%
Income Not Avail..	5.05%	N/A	11.54	N/A

We performed our analysis of the assessment area in Okaloosa County based on all mortgage loans originated January 1996 through September of 1998. During this period, 22% of the bank's mortgage loans in the Okaloosa County assessment area were made to low- or moderate-income borrowers, which compares reasonably to the 27% of the families living in the area with this same level of income. Our analysis of loan distribution in Walton County, was based on the representative sample of 30 mortgage loans originated during this same time period. Our findings here indicate that approximately 35% of the bank's mortgage loans made within the Walton County assessment area were to low- or moderate-income borrowers, comparing closely to the 41% of families living in the same area. Therefore, the percentage of the bank's mortgage loans in these areas were only slightly below the percentage of families with low- or moderate-incomes.

We determined this record of lending is reasonable given the limited number of homes that are affordable to low- or moderate-income families in both areas. Consequently, in both counties, there are a significant number of mobile home residents and renters. This is particularly true in the two BNAs with 35% of families living in mobile homes and 14% of the families in rental units. The bank services the housing needs of the low- income families in the area by offering mobile home loans. Information regarding other types of lending based on family income was not available.

The bank has a satisfactory record of lending to businesses of different sizes. The bank's lending is representative of the assessment area. The majority of the bank's commercial loans are to small businesses. Small businesses are defined as those with revenues less than \$1 million. Also, small businesses make up approximately 80% and 74% of the businesses in Okaloosa and Walton County, respectively. Specific revenue information was not readily available for all business loans made by the bank. However, a sample of 10 commercial loans originated during this evaluation period revealed that 80% of these loans were to small businesses.

Due to our sample being limited, we also performed an analysis of business loans using loan amount as a proxy for the size of the business. We assumed that small businesses will generally require loans of smaller amounts. An analysis of all business loans originated at the bank in the prior twelve months (September 1997 - September 1998) further supports a reasonable record of lending to small businesses. The results of our analysis are shown below, indicating that 92% of the bank's business loans are below \$100M and probably made to small businesses.

Loan Size	Percentage of Sampled Loans
< \$100,000	92%
\$100,00 to \$250,00	6%
\$251,000 to \$500,00	2%
>\$500,00	0%

- **Geographic Distribution of Loans**

The geographic distribution of loans reflects a reasonable penetration in geographies within the assessment area. Our analysis compared the distribution of loans with the proportion of tracts by designated income level within the bank's assessment area. We analyzed the bank's HMDA reportable loans originated in 1996 through September 1998 to evaluate lending in Okaloosa County. We did not perform a geographic analysis of lending in Walton County. Both BNAs in Walton County are designated as middle-income. Therefore, an analysis of geographic lending patterns would not have produced any meaningful information.

Residential mortgage lending within Okaloosa County reflects a reasonable distribution of loans to moderate, middle and upper income census tracts, given the proportion of the tracts in these income levels, and the bank's location in the assessment area. The results are summarized in the table below.

Income Level	Okaloosa Area		
	# of Tracts	% census Tract	% of Loans
Low	0	0%	NA
Moderate	1	20%	4%
Middle	2	40%	47%
Upper	2	40%	50%

On the surface, lending in the bank's only moderate tract (mainly the city of Valparaiso) seems comparatively low when compared to the percentage of low income tracts. However, this amount of lending is reasonable, due in part to the small number of families residing in this tract. Also, this tract consists of a well-established neighborhood with little room for any new residential development. Furthermore, the families in this area are mainly either civil service employees or military retirees, and use Eglin Federal Credit Union for their lending needs. Information regarding other types of lending based on location was not available.

• **Response to Complaints**

During our evaluation period, PNB did not receive any complaints related to its Community Reinvestment Act performance.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

We conducted a Fair Lending Examination in conjunction with this CRA review. We found no evidence of any discrimination on a prohibited basis. PNB has policies and procedures governing lending practices to ensure compliance with anti-discrimination laws and regulation.