



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

June 9, 2009

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

CBC National Bank  
Charter Number 23922

1891 South 14<sup>th</sup> Street  
Fernandina Beach, FL 32034

Office of the Comptroller of the Currency

North Florida Field Office  
8375 Dix Ellis Trail, Suite 403  
Jacksonville, Florida 32256

**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.**

- CBC National Bank's average loan-to-deposit ratio is reasonable and comparable to peer group averages.
- CBC National Bank's lending activities show reasonable penetration among businesses of different sizes and to borrowers of different sizes given the performance context.

**SCOPE OF EXAMINATION**

The bank was examined using the Community Reinvestment Act (CRA) small bank examination procedures to assess the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. Our ratings are based primarily on conclusions reached in the evaluation of the bank's lending performance in the Beaufort County AA. The lending test did not include an evaluation of Nassau County, Florida and Thomas County, Georgia as the surviving bank charter, Lowcountry National Bank (LCNB), located in Beaufort County, South Carolina, hereafter referred to as Beaufort County, originated a significant amount of loans during the evaluation period and prior to the merger with FNB of Nassau County (FNB) in August 2008. Lending activity after the merger for the Florida and Georgia markets were not sufficient enough to render a meaningful conclusion. As such, these markets were excluded unless otherwise noted.

In addition, lending activity analyzed from April 2003 through May 31, 2009 consisted of Beaufort County only as this was more representative of its lending strategy since the last CRA examination in March 2003. Although Nassau and Thomas counties were not included in our analysis, it is important to note that all of the prior- and post-merger lending impacted the overall rating conclusion.

Based on both the number and dollar amount of loan originations provided by the bank, Beaufort County's primary loan products prior to the merger were business and residential real estate loans. Beaufort County was a non-HMDA (Home Mortgage Disclosure Act) reporter due to its non-MSA status. Nonetheless, the bank recorded residential real estate loans on a HMDA log. As part of our examination, we conducted a data integrity review of these home mortgage loans the bank recorded on HMDA and found the data to be reliable. As such, we used the bank's HMDA data for our lending analysis of all home purchase and home refinance loans during the evaluation period. Beaufort County did not originate enough home improvement loans for a meaningful analysis, and therefore, we did not include these types of loans. To evaluate the bank's business lending performance, we selected a sample of business loans made during the time period of January 1, 2004 through May 31, 2009.

**DESCRIPTION OF INSTITUTION**

CBC National Bank (CBCNB) is wholly-owned by Coastal Banking Company, Inc., a publicly traded, \$475 million one-bank holding company headquartered in Fernandina Beach, Florida. CBCNB was established in August 2008 as the result of two affiliated national banks (LCNB, Beaufort, South Carolina and FNB, Fernandina Beach, Florida) merging into one. The resulting bank retained the Lowcountry National Bank charter.

Coastal Banking Company was formed in April 2005, when the holding companies of Lowcountry National Bank and First National Bank of Nassau County merged. In October 2006, Coastal Banking acquired a banking office in Meigs, Georgia and merged it with FNB. This banking office operates under the name The Georgia Bank. Although the bank's official name changed to CBCNB upon the merger in 2008, the branches continue to operate under their former names in their respective markets.

CBCNB's main office is located in Fernandina Beach, Florida. The bank has three other offices located in South Carolina and one office located in Meigs, Georgia. In addition to the bank offices, the bank also operates a wholesale mortgage lending division based in Atlanta, Georgia and two commercial loan production offices in Jacksonville, Florida and Savannah, Georgia.

The bank offers many services to its customers; including drive-up facilities and onsite automated teller machine (ATM) access at all locations (with the exception of the Meigs, Georgia office), debit card services, remote deposit capture, and free 24-hour internet, bill-paying and telephone banking. Customers are not charged for ATM transactions conducted at the bank offices and the bank will refund up to \$10 per account per calendar month for fees assessed by other bank ATMs. CBCNB also provides low-to-no-cost checking accounts.

CBCNB provides a variety of lending programs but generally its primary focus has been in business and mortgage lending which represents 62% and 31%, or \$208 million and \$102 million, respectively. Affordable residential real estate products that the bank offers include Federal Housing Administration (FHA) loans and long-term, fixed rate loans through its wholesale mortgage lending division. For the first six months of 2009, the bank originated 613 (FHA) loans totaling \$107 million dollars. CBCNB is also a qualified U.S. Small Business Administration (SBA) lender which allows the bank to address the lending needs of small businesses in the assessment area.

As of March 31, 2009, the bank had total assets of \$475 million with net loans comprising 70% of total assets, or \$332 million. There are no financial, legal or other impediments that would prevent the bank from meeting the credit needs of the communities it serves. The last CRA evaluation for this charter (when the bank was LCNB) was dated March 31, 2003, when the bank was given a "Satisfactory" rating.

## **Description of the Assessment Area**

### *Description of the Beaufort County AA-part of the Hilton Head Island-Beaufort Micropolitan Statistical Area*

The assessment area (AA), which is located on South Carolina's southeastern coast, includes all of Beaufort County. The county seat is the city of Beaufort. Other cities and towns located in the AA that are served by the bank include Bluffton, Hilton Head Island, Lady's Island, Laurel Bay, Parris Island, Port Royal and Shell Point. The bank has three offices which are located in Beaufort, Hilton Head Island and Port Royal. The Beaufort and Hilton Head Island offices are located in upper-income census tracts and the Port Royal office is located in a middle-income tract. Specific 2000 and 2008 demographic and economic data for the assessment area are listed below.

<b>Demographic and Economic Characteristics of the Beaufort County AA</b>	
<i>2000 Population:</i>	
Total Persons	120,937
% of retired persons living in AA	25.43%
<i>2008 Median Family Income (MFI)</i>	
	\$46,500
<i>Based on MFI</i>	
Low-Income individuals earn	< \$23,250
Moderate-Income individuals earn	\$23,250- \$37,199
<i>Geographies</i>	
Number of Census Tracts	27
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	7.41%
% Middle-Income Census Tracts	33.33%
% Upper-Income Census Tracts	59.26%
<i>Income Distribution</i>	
Number of Families	33,397
Families residing in the AA by income category	
% Low-Income Families	12.77%
% Moderate-Income Families	13.07%
% Middle-Income Families	17.56%
% Upper-Income Families	56.60%
<i>Businesses</i>	
Number of Businesses located in the AA	12,764
% of Small Businesses (revenues <= \$ 1 million)	66.26%
% of Large Businesses	4.68%
% of Businesses in which no revenues were reported	29.06%

*Source: 2000 U.S. Census Bureau, 2008 Housing and Urban Development (HUD) updated income and 2008 Dunn and Bradstreet data*

Based on the 2000 U.S. Census Bureau economic data, the AA has a total population of 120,937. Beaufort County is known as a tourist destination and is also popular with retirees. The AA also has a large second or vacation home population. Approximately 25% of the population is retired and 9.50% of households live below poverty level. Only 55% of all owner-occupied housing units in the AA are used as primary residences. Renters make up 20.11% of the total population. The AA's economy is heavily based on services and tourism. In addition, the area is known for its military presence.

Historically, Beaufort County residents have experienced low unemployment rates and high-income levels because of its demographics. Tourists come to Beaufort County for its history, climate and art festivals. Beaufort County is recognized as one of the top places in the U.S. to retire. In addition, the U.S. military is the county's largest employer, as the Marine Corps Air Station, Parris Island Marine Recruit Training Base and the U.S. Naval Hospital are all located in the AA. Major industries include leisure and hospitality as well as trade and transportation utilities. However, the economy has weakened as the current recession has impacted the AA.

Job losses have significantly increased in 2009. According to the U.S. Bureau of Labor Statistics, the unemployment rate for Beaufort County was 9.1% in June 2009, just slightly below the national unemployment rate of 9.5% but significantly higher than the June 2008 unemployment rate of 5.2%. Beaufort County has been impacted by the national economic deterioration, as the decline in discretionary spending has reduced the number of tourists and out-of-state second homeowners. The Beaufort County housing market has also been negatively impacted as the number of foreclosed home activity continues to rise which is directly attributed to the rising unemployment rate. The median housing values remain high in the AA and higher than the national average as this area is known for its upscale residential housing. According to Zillow, the median housing value in June 2009 was \$274, 000 and has declined 13% from last year.

The AA meets the legal requirements of the Act and does not arbitrarily exclude low- or moderate-income census tracts.

There is a considerable amount of banking competition for financial services in Beaufort County. There are 25 financial institutions operating in 78 offices within the AA. According to the FDIC deposit market share data as of June 30, 2008, major competitors in the AA include Wachovia Bank, N.A., Bank of America, N.A., SunTrust Bank and Branch Banking & Trust Company (BB&T).

Our office met with a locally-based community organization to gain an understanding of the most pressing credit needs within the bank's AA. Community credit needs identified were affordable housing programs for low- and moderate-income families in the AA. Beaufort County is experiencing an increased affordable housing gap due to the significant volume of individuals employed in the low wage service and government industries in comparison to the large second or high-end resort housing population. Also, due to the high unemployment rate and decline in the housing values, foreclosures have significantly increased, resulting in various types of opportunities available to banks to assist in community economic development activities throughout the AA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio - Meets the Standard for Satisfactory Performance**

*The bank's average loan-to-deposit (LTD) ratio is reasonable at 80.64% and is comparable to peer averages.* The quarterly average LTD ratio was calculated and averaged for each quarter (through March 31, 2009) since the last CRA examination in March 2003. The peer group used for this analysis consists of all banks with total assets under \$500 million and located throughout the counties in and surrounding the bank's three AA's--Beaufort, Nassau and Thomas. The bank's average LTD ratio for the last 24 quarters was 80.64%, which is reasonable in comparison to peer banks' average of 86.41%.

The average quarterly LTD ratio was also calculated for the Beaufort County AA (surviving bank charter) for the time period since the last CRA examination through July 2008, or prior to the August 2008 merger. The peer group used for this analysis consists of all banks with total assets under \$250 million and located in South Carolina. The bank's average quarterly LTD ratio for 21 quarters was 79.27% and is comparable to peer banks' average of 79.46%.

**Lending in Assessment Area - Meets the Standard for Satisfactory Performance**

*CBCNB's lending in its assessment area is reasonable given its performance context.* This conclusion is based on an analysis of all home mortgage loans reported on the HMDA (2,893) since the last CRA examination in 2003. The business analysis is based on a random sample of 66 loans originated by Beaufort County and the 10 loans originated by Nassau and Thomas counties since the merger in 2008. As detailed in the table below, 74.50% by number, and 75.34% by dollar amount of loans, originated during the evaluation period were outside of the assessment area. However, lending to businesses within the AA is strong as 90.79% by number, and 86.47% by dollar amount, were made to businesses during the evaluation period. This lending pattern is expected as it is reflective of the significant volume of mortgage loans generated from the bank's wholesale mortgage lending division (previously a department of FNB of Nassau County) in which originations usually occur outside of the AA.

<b>Lending in Beaufort, Nassau and Thomas Counties for the time period of April 2003 through May 31, 2009</b>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase Loans	345	27.12	927	72.88	1,272	81,544	28.11	208,554	71.89	290,098
Home Refinance Loans	343	21.16	1,278	78.84	1,621	76,146	20.38	297,439	79.62	373,585
Business Loans	69	90.79	7	.0921	76	8,333	86.47	1,304	13.53	9,637
<b>Totals</b>	<b>757</b>	<b>25.50</b>	<b>2,212</b>	<b>74.50</b>	<b>2,969</b>	<b>166,023</b>	<b>24.66</b>	<b>507,297</b>	<b>75.34</b>	<b>673,320</b>

*Source: For the Beaufort County AA: Data reported under HMDA April 1, 2003 through March 31, 2009 and a sample of business loans (66) for the time period of April 1, 2003 through May 31, 2009. For the Nassau County and Thomas County AA's post merger: HMDA loans originated during the time period of August 1, 2008 through March 2009 (includes Wholesale Division) and all 10 business loans originated during the time period of August 1, 2008 through May 31, 2009.*

As discussed in the *Scope of Examination* section, Beaufort County's lending performance in the AA was given the most weight as the majority of the lending occurred pre-merger. Our analysis shows for the time period prior to the merger, *the majority of home mortgage and business lending occurred in the Beaufort County AA.* This conclusion was based on all home mortgage loans (677) reported on the HMDA and a sample of business loans (61) originated since the last CRA examination through August 2008. As detailed in the table below, 87.80% by number and 87.56% by dollar amount were made within Beaufort County's AA.

<b>Lending in Beaufort County AA for the time period of April 1, 2003 through July 31, 2008</b>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase Loans	308	83.92	59	16.08	367	70,877	84.37	13,133	15.63	84,010
Home Refinance Loans	283	91.29	27	8.71	310	61,357	91.70	5,554	8.30	66,911
Business Loans	57	93.44	4	6.56	61	7,396	86.62	1,142	13.38	8,538
<b>Totals</b>	<b>648</b>	<b>87.80</b>	<b>90</b>	<b>12.20</b>	<b>738</b>	<b>139,630</b>	<b>87.56</b>	<b>19,829</b>	<b>12.44</b>	<b>159,459</b>

Source: Data reported under HMDA April 1, 2003 through July 31, 2008. Loan sample for business loans for the time period of April 1, 2003 through July 31, 2008.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes - Meets the Standard for Satisfactory Performance**

CBCNB's lending activities show reasonable penetration among businesses of different sizes and to borrowers of different incomes given the performance context. As previously mentioned, the lending analysis and the basis of our overall rating is focused on the lending performance of Beaufort County as the majority of the lending during the evaluation period occurred prior to the merger in August 2008. Our sample included all home mortgage loans (446) reported on the HMDA and a sample of business loans (60) originated in the Beaufort County AA, for the time period of January 1, 2004 through May 31, 2009. The following charts show a breakdown of those loans according to business and loan size for the AA.

<b>Borrower Distribution of Loans to Businesses in Beaufort County for the time period of January 1, 2004 through May 31, 2009</b>				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	66.26	4.68	29.06	100%
% of Bank Loans in AA by #	68.33	26.67	5.00	100%
% of Bank Loans in AA by \$	46.68	45.29	8.03	100%

Source: Beaufort County AA only-Business Loan sample for the time period of January 1, 2004 through May 31, 2009 and 2008 Dunn and Bradstreet data.

<b>Borrower Distribution of Loans to Businesses in Beaufort County for the time period of January 1, 2004 through May 31, 2009</b>				
Loan Size	Number of loans	Percent of #	Dollar Volume of Loans (000's)	% of \$'s
\$0-\$100,000	40	67.00	1,402	18.00
\$100,001-\$250,000	12	20.00	1,721	23.00
\$250,001-\$500,000	4	6.50	1,324	17.00
\$500,001-\$1,000,000	3	5.00	1,804	24.00
\$1,000,001-\$1,500,000	1	1.50	1,376	18.00
Total	60	100.00	7,627	100.00

Source: Beaufort County AA only-Business Loan sample for the same time period

As shown in the above tables, the percentage of loans to small businesses exceeds the percentage of such businesses operating in the assessment area. Based on our sample, the bank originated 68.33% of total number of loans and 46.68% of total dollar volume of loans to small businesses (those with total revenues of \$1 million or less). In comparison, businesses in the assessment area that reported revenues (29.06% did not report revenues), 66.26% are considered small businesses. Additionally, our analysis noted the dollar volume of loans reported in the table is reflective of the significant amount of business loans with original amounts of \$250,000 or less. The bank originated 52 in number, or 87%, of total loans sampled were under \$250,000. Likewise, 56 loans, or 93.50% of all business loans, had original amounts of \$500,000 or less. During the evaluation, the bank originated only 1 loan in an amount over \$1million.

*The bank's lending to borrowers of different incomes is reasonable given its performance context.* Our analysis is based on 446 home mortgage loans made in the Beaufort County AA and reported on HMDA since January 1, 2004 through March 31, 2009. We compared the income distribution of the bank's borrowers to the income distribution of the families within Beaufort County using HUD's median family income levels for 2008. The distribution of lending is depicted below.

<b>Borrower Distribution of Residential Real Estate Loans in Beaufort County For the time period of January 1, 2004 through March 31, 2009</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	12.77	1.95	13.07	6.61	17.56	12.06	56.60	75.49
Home Refinance	12.77	1.59	13.07	6.35	17.56	10.05	56.60	79.89

Source: Data reported under HMDA 2004 through March 31, 2009 for Beaufort County. Income was reported as NA for 3.89% of home purchases and 2.12% of home refinance loans.



Lending performance to borrowers of different income levels, especially to low- and moderate-income families is reasonable as this is representative of the bank's performance context as discussed in the *Description of the Assessment Area* section. Residential lending opportunities to low- and moderate-income families are limited due to the high median housing values in comparison to median family income for the AA, especially to low- and moderate-income individuals. The majority of these individuals are also renters and do not own homes as supported by the demographic data of the county. In particular, the data shows 20.11% of the families in the assessment area occupy rental units. The data also shows only 55.14% of owner-occupied units is used for a primary residence which shows a high correlation for the AA's large demand for high-end resort and vacation housing and limit home ownership opportunities for low- and moderate-income families. To address the AA's need for affordable housing, CBCNB offers a variety of flexible mortgage products, including FHA and long-term fixed rate loans, through its wholesale mortgage lending division.

### **Geographic Distribution of Loans**

CBCNB has no low-income and only two moderate-income census tracts out of a total of 27 census tracts in the Beaufort County AA. The remaining 25 census tracts consist of middle- and upper-income census tracts. Therefore, an analysis of the geographic distribution of loans originated within its AA would not provide meaningful information.

**Responses to Complaints** -There were no CRA related complaints received by the bank or our office since the last CRA examination in 2003.

### **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.