



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

[August 10, 2010]

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

[First National Bank of Crestview]  
Charter Number [14766]

[1301 Industrial Drive North]  
[Crestview], [FL] [32539]

Office of the Comptroller of the Currency

Birmingham Field Office[]

**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].**

Summarize the major factors supporting the institution's rating.

- The quarterly average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A substantial majority of the bank's loans are extended within the assessment area.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The bank did not receive any consumer complaints regarding Community Reinvestment Act (CRA) performance.

**SCOPE OF EXAMINATION**

First National Bank of Crestview (FNBC) was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activity by evaluating the loan-to-deposit ratio, lending performance inside the AA, borrower distribution and lending volume to small businesses, geographic distribution, and reviewing consumer complaints regarding CRA.

This evaluation includes an analysis of lending performance from January 06, 2003 through August 9, 2010, as this is representative of the bank's CRA performance since the prior CRA examination. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data from 2003 through 2009 and the first two quarters of 2010 were tested and found to be reliable and was used to evaluate home loan performance. To evaluate business lending performance, we selected a sample of business loans from January 06, 2003 through August 9, 2010 made in the AA.

**DESCRIPTION OF INSTITUTION**

FNBC is an intrastate bank headquartered in Crestview, Okaloosa County, Florida and established in 1956. The bank is a wholly owned subsidiary of FNBC Financial Corporation, a one-bank holding company. As of June 30, 2010, FNBC had total assets of \$148 million and tier one capital of \$8.5 million. In addition to the main office, FNBC operates two full-service branches located in Crestview, each with deposit taking ATMs. There have not been any significant changes to FNBC's corporate structure, including merger or acquisition activities since the last CRA examination.

The bank offers a full range of deposit and loan products and services. Residential and commercial related loans are FNBC's primary business focus, with consumer and

municipal loans comprising a small portion of the loan portfolio. Deposit products and services include overdraft protection, “Okaloosa Saves” (saving account specifically designed for first time savers), and free checking. The bank offers a wide variety of customer service, outreach, and provides financial seminars to the local community. Furthermore, all brochures are available in Spanish and the bank employs a Spanish interpreter located at the main office.

As of June 30, 2010, FNBC reported net loans of \$69 million and had a net loans and leases to total assets ratio of 51%. The loan portfolio composition is as follows:

<b>Loan Portfolio Summary by Loan Product As of June 30, 2010</b>	
<b>Loan Category</b>	<b>% of outstanding (\$)</b>
Business Loans	74.11%
Home Loans	17.47%
Other Loans	5.57%
Farm Loans	1.87%
Consumer Loans	0.97%

There are no legal or financial impediments to FNBC’s ability to meet the credit needs of its AA. The bank was rated excellent during the prior CRA examination dated January 6, 2003.

**DESCRIPTION OF ASSESSMENT AREA(S)**

FNBC has designated Fort Walton Beach-Crestview-Destin as its CRA assessment area (AA). This assessment area is part of the Fort Walton Beach-Crestview-Destin Metropolitan Statistical Area (MSA). The AA consists of 33 census tracts with a total population of approximately 170,500 persons. Of the 33 census tracts, there are four moderate-income tracts, 24 middle-income tracts, and five upper-income tracts. Although there are no low-income tracts in the AA, there are pockets of low-income households within the moderate-and-middle-income rural tracts. The 2010 HUD adjusted median family income for the AA is \$65,500 and 8.47% of households live below the poverty level.

The credit need of the community, identified by the community contacts, is small business lending and low income housing.

**Fort Walton Beach-Crestview-Destin AA**

The Fort Walton Beach-Crestview-Destin AA is comprised of Okaloosa County. The AA meets regulatory requirements and does not arbitrarily exclude any low-or-moderate-income areas. This county is contiguous and located in the western part of the panhandle of Florida. The following table provides a summary of demographic

information from this AA.

<b>Demographic Information for: Fort Walton Beach-Crestview-Destin FL MSA AA</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	33	0	12.12	72.73	15.15
Population by Geography	170,498	0	10.26	73.30	16.44
Owner-Occupied Housing by Geography	43,972	0	35.80	55.59	68.02
Businesses by Geography	25,109	0	9.74	67.38	22.88
Farms by Geography					
Family Distribution by Income Level	46,858	17.10	20.02	24.36	38.52
Household Distribution by Income Level	78,593	0.00	8.65	74.67	16.68
Census Median Family Income (MFI)		\$47,518	Median Housing Value		\$107,467
HUD-Adjusted MFI: 2009			Families Below the Poverty Level		8.47%
			Unemployment Rate		2.09%

The current local economy for the AA has been declining in recent years primarily due to the real estate market and businesses associated with that market. Economic activity in the area is centered around tourism, railroad, aviation, the Eglin Air Force Base, and service and retail industries. Furthermore, the AA has a large population of retired individuals that comprises about 28% of households. The Eglin Air Force Base (EAFB) is primarily an aviation-training site that covers about 450 acres. EAFB brings many short-term residences to the community however, in 2008 when the 33<sup>rd</sup> fighter division displaced, numerous government contracting jobs and short-term residents transferred. Further influencing the local economy is tourism from the beaches, national parks, and surrounding resorts. The county relies heavily on the tourism business, which experienced negative externality from the BP oil spill in April 2010.

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

### **Lending Test**

FNBC’s performance under the lending test is satisfactory. Lending performance was assessed by analyzing lending for two primary loan products, residential and commercial loans. Both of these loan products were weighted equally in our evaluation. The loan-to-deposit ratio exhibits reasonable lending levels although the bank’s ratio is below comparable banks. Furthermore, majority of loans are made within the AA and borrower distribution among different income levels and businesses of different sizes is reasonable. The geographic distribution of loans is excellent; however, less weight is placed on this category since there are no low-income census tracts located in the AA.

### **Loan-to-Deposit Ratio**

FNBC’s net loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial

condition, state of the economy, and AA credit needs. The bank's quarterly average LTD ratio was 59.46% since the prior CRA examination in January 2003.

The average LTD ratio of other community banks of similar size and location within the AA during the same time period was 76.86% which compares unfavorably to FNBC's ratio. One of the primary reasons for FNBC's low LTD ratio is the large amount of competition from the influx of banks to the market along with the downturn in the local economy in recent years.

Institution	Assets as of 1Q2010	Average LTD
Coastal Community Bank	\$378,000	92.04%
FNB Northwest Florida	\$122,000	79.61%
Peoples National Bank	\$129,000	75.61%
FNBT.Com Bank	\$355,000	70.44%
Bay Bank & Trust Company	\$228,000	66.63%
<b>FNB of Crestview</b>	<b>\$147,000</b>	<b>59.46%</b>

### Lending in Assessment Area

FNBC makes the majority of its loans within their assessment area. Our sample included the bank's primary loan products with 80% of the loans originating within the AA. This meets standards for excellent performance. The following table details the bank's originations within the AA by number and dollar amount during the evaluation period.

<b>Lending in Fort Walton Beach-Crestview-Destin AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	49	77.78	14	22.22	63	7,025	58.82	4,918	41.18	11,943
Home Improvement	60	92.31	5	7.69	65	770	90.48	81	9.52	851
Refinance	10	50.00	10	50.00	20	1,250	34.99	2,322	65.01	3,572
Totals	119	80.41	29	19.59	148	9,045	55.27	7,321	44.73	16,366

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

Lending performance to borrowers of different income and to businesses of different size reflects reasonable penetration given the bank's product offerings and local economic conditions.

### Residential Lending

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. While the bank’s performance is weak in low-and-moderate-income borrowers, it does succeed in making home improvement loans to low-income borrowers.

<b>Borrower Distribution of Residential Real Estate Loans in Fort Walton Beach-Crestview-Destin AA</b>								
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	17.10	12.24	20.02	14.29	24.36	10.21	38.52	51.02
Home Improvement	17.10	48.33	20.02	16.67	24.36	18.33	38.52	13.33
Refinance	17.10	10.00	20.02	10.00	24.36	10.00	38.52	70.00

### Business Loans

The bank’s distribution of loans to small businesses is excellent. Ninety-two percent of the bank’s loans to businesses were made to small businesses, which are businesses with gross annual revenues of one million dollars or less. This is considered excellent compared to demographic data that shows 77% of the area’s businesses are considered small businesses. One of the AA credit needs, identified by a community contact is small business lending. The bank is meeting this need by primarily lending to small businesses within the AA.

<b>Borrower Distribution of Loans to Businesses in Fort Walton Beach-Crestview-Destin AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.32	2.51	20.17	100.00
% of Bank Loans in AA by #	89.65	10.35	0	100.00
% of Bank Loans in AA by \$	92.48	7.52	0	100.00

### Geographic Distribution of Loans

FNBC’s geographic distribution of loans in the Fort Walton-Crestview-Destin AA reflects an excellent dispersion throughout census tracts of different income levels. Overall, we placed less weight on the bank’s performance for geographic distribution since there are no low-income census tracts located within the bank’s AA.

### Residential Loans

The bank’s geographic distribution of residential real estate loans represents an excellent dispersion throughout the AA based on the performance context of the bank. Affordable housing was identified as a need of the community. Lending in the low-and moderate-income census tracts is above demographic comparators, which shows that the identified need has been met.

<b>Geographic Distribution of Residential Real Estate Loans in Fort Walton Beach-Crestview-Destin AA</b>								
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	0.00	0.00	5.54	22.45	74.18	77.55	20.28	0.00
Home Improvement	0.00	0.00	5.54	11.67	74.18	88.33	20.28	0.00
Refinance	0.00	0.00	5.54	20.00	74.18	80.00	20.28	0.00

### Business Loans

The geographic distribution of business loans reflects excellent dispersion among census tracts of different income levels. The bank’s performance exceeds demographic comparators for moderate-income census tracts.

<b>Geographic Distribution of Loans to Businesses in Fort Walton Beach-Crestview-Destin AA</b>								
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
Businesses	0.00	0.00	9.74	61.54	67.38	38.46	22.88	0.00

### Responses to Complaints

[First National Bank of Crestview has not received any CRA complaints during this evaluation period.

### 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.

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