

Small Bank Performance Evaluation

PUBLIC DISCLOSURE

January 27, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank of Pasco County
Charter Number 21842**

**6930 Gall Boulevard
Zephyrhills, Florida 33540**

**Office of the Comptroller of the Currency
North Florida Field Office
8382 Baymeadows Road, Suite 1
Jacksonville, Florida 32256**

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 **Community National Bank of Pasco County** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 27, 1999. 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.

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

The following table indicates the performance level of Community National Bank of Pasco County with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Community National Bank of Pasco County</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

Community National Bank of Pasco County (CNB) was chartered in 1989. The bank consists of six offices all within Florida. Two branches were recently opened in October and November of 1998. The branches are located in three counties. Two are located in Zephyrhills, Pasco County. Within Sumter County, there is a branch located in Bushnell and Wildwood. The other two branches are located in Clermont and Groveland, Lake County. CNB had total assets of \$91 million as of January 8, 1999. The bank's main loan products are commercial and residential loans. As of December 31, 1998, the loan distribution by county was: Pasco (69%), Lake (12%) and Sumter (19%). Loans for residential and mobile home loans represented 42% of total loans outstanding. Loans to businesses represented 52% of total loans outstanding. Installment and agricultural loans each represented 3% of the 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 areas. The last CRA examination for CNB was completed December 1995.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank has designated three separate assessment areas. One is mainly comprised of the City of Zephyrhills in Pasco County. Sumter County and Lake County have also been designated as independent assessment areas. These assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. The majority of the bank's lending is concentrated in Pasco County at the main office. Our contacts with local community organizations identified a need for loans to small business and for home loans within all of the bank's assessment areas. Because the geographies of counties are distinct, a separate description of each assessment area follows.

Zephyrhills/Pasco County: The assessment area includes 15 of the census tracts located in this county which is within the Tampa/St. Petersburg Metropolitan Statistical Area (MSA #8280). The City of Zephyrhills and the surrounding area comprises these census tracts. Ten of the tracts are moderate-income and the remaining 5 are middle-income. The branches are located in tracts designated moderate-income. The Zephyrhills and West Zephyrhills offices were opened in 1989 and 1997, respectively. The 1990 Census median income is \$31,244. The updated 1998¹ median family income is \$44,500. The total population of Zephyrhills is 47,000 in the summer months and 85,000 in the winter months. This area is located approximately 30 miles north of Tampa. A large part of the economy is driven by service related industries as it is home to many northern winter residents. However, there is also significant employment in the retail trade and by the government. Unemployment is low at 4.35%. In addition to Zephyrhills Water, major employers in the area include: Zephyrhills City government, Vitality Food Group (Lykes Brothers) and East Pasco Medical Center. Banking competition is strong with major regional banks, credit unions and a few locally-based

¹Source: Housing and Urban Development (HUD)

community banks.

Lake County: The assessment area includes all 27 census tracts located in this county which is within the Orlando Metropolitan Statistical Area (MSA #5960). One tract is designated upper-income, 15 are middle-income and 11 are moderate-income. The Clermont branch opened January 1996. The Groveland branch was recently opened in October 1998. The branches are located in a moderate- and middle-income tract. This is based on the 1990 Census median income of \$31,244. The updated 1998 median family income is \$42,000. As of April 1998, the county's population was 195,978. This area is located northwest of Orlando and approximately 60 miles north of Zephyrhills. Similar to Pasco County, a large part of the economy is driven by service related industries as it is also home to many northern winter residents. However, there is also significant employment in retail and by the government. Major employers include: Leesburg Regional Medical Center, Village of Lake-Sumter Inc., Publix and Golden Gem Growers. Also, a significant portion of the population commutes to Orlando for their jobs. Unemployment is low at 4.49%. Banking competition is strong with major regional banks, credit unions and a few locally-based community banks.

Sumter County: Sumter County is primarily rural and designated as a nonmetropolitan area. The geographies are separated into block numbering areas (BNAs) as opposed to census tracts, because this county is not in an MSA. Six of these BNAs are designated middle-income level and the remaining tract is designated moderate-income. This is based on the 1990 Census median income of \$25,875 for nonmetropolitan areas in Florida. The updated 1998 median family income is \$33,300. The bank's assessment area includes the entire county. The Bushnell branch was opened March 1993. The bank's assessment area was expanded from the four BNAs surrounding this area to the entire county when the Wildwood branch was completed in November 1998. Both branches are located in middle-income tracts. The number of banks in this county is limited as this is predominately a rural area. The main industries other than farming are trade and service. The total population of Sumter County is 36,348. Unemployment information was unavailable. Major employers in the community include: Coleman Federal Correctional Complex, Sumter Correctional Institution, The Villages and Metal Industries. Banking competition is limited due to the small population and rural nature of the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

C Loan to Deposit Ratio

CNB maintains a reasonable loan-to-deposit ratio compared to other banks. The bank's average loan-to-deposit (LTD) ratio for the evaluation period is 68.87% comparable to the average LTD of 70.37% for all banks nationally of similar characteristics. The bank's LTD is slightly above the average LTD ratio at 65.45% for local banks under \$100 million (headquartered in Hillsborough, Lake, Pasco and Sumter County) during this same time period. In addition, the bank has originated and sold fixed rate residential loans in the secondary market since November 1996. This was in response to increasing credit demands for this type of credit. The bank has originated 14 mortgage loans totaling \$1,315M since the program's inception.

C Lending in Assessment Area

The bank makes the substantial majority of its loans within the assessment areas. This conclusion is based on analyses of residential loans reported in accordance with the Home Mortgage Disclosure Act (HMDA) originated January 1996 through December 1998. We sampled 6%, or 25 of the residential loan applications made within this time period and validated data integrity. Residential lending is the bank's primary loan product and representative of the bank's lending patterns.

We performed our analysis on an aggregate basis for all three assessment areas. Approximately 98% of all residential loans originated during this time frame were made within the assessment areas. We also sampled 10 commercial loans as part of our loan review and determined 100% were made within the assessment areas. The bank purchases very few loans outside its assessment areas. As of December 31, 1998, the bank had purchased \$3,078M in loan participations from other financial institutions out of the bank's three assessment areas.

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

Lending to borrowers of different incomes is reasonable given the demographics of the community. This conclusion is based on our analysis of borrower income data collected in accordance with the Home Mortgage Disclosure Act (HMDA) for residential loans. As previously mentioned, this is a primary loan product of the bank. The data was then compared to the income distribution of families in each assessment area, using updated 1998 median family income levels.

We performed our analysis for all three assessment areas and on an aggregate basis for all mortgage loans originated January 1996 through December 1998. During this period, 37% of the bank's mortgage loans originated within all three assessment areas were to low- or moderate-income borrowers compared to the 50% ratio of low- or moderate-income families living in these areas. During this evaluation period, lending in Lake and Sumter Counties was somewhat limited as each

county only had one branch until the end of 1998. As the main branch is in Zephyrhills, the majority of the bank's loans, particularly mortgage loans, are made in Pasco county. Consequently, most significance is given to aggregate lending patterns and within Pasco County. Our findings indicate approximately 46.75% of the bank's mortgage loans within the Pasco County assessment area were made to low- or moderate-income borrowers compared to the 53% ratio of low- or moderate-income families in the area. A summary of our findings is presented below.

Income Level	Pasco County		Lake County		Sumter County	
	Loan Distribution	Families in Assessment Area	Loan Distribution	Families in Assessment Area	Loan Distribution	Families in Assessment Area
Low Income	8.75%	27.52%	2.90%	24.21%	7.19%	23.91%
Moderate Income	38.00%	25.49%	13.90%	26.61%	11.63%	19.26%
Middle Income	27.10%	24.14%	30.70%	24.60%	19.53%	22.82%
Upper Income	26.15%	22.86%	52.47%	24.58%	61.66%	34.00%

Mortgage lending to low-income individuals is somewhat limited compared to the population. This is because these individuals are either renting or comprise the well-established group of retirees who have resided in the mobile home parks for years within these assessment areas. This was supported through discussions with local community groups, county demographics and per the significant number of mobile home owners in all three counties. In particular, 46% of the Zephyrhills population are mobile home residents and 17% of the population are renters. More moderate- and middle-income families are moving to all three areas, which is why the bank's record of lending to all other income levels more closely reflects the percentage of families living in the assessment areas.

As discussed above, mobile home loans continue to be a primary credit need. By offering mobile home loans, regardless of the age of the mobile homes, the bank services the housing needs of the low- and moderate- income families in all of the assessment areas.

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 (defined as businesses with revenues less than \$1 million). Approximately 94%, 92% and 93% of businesses that reported income information within the assessment areas for Pasco, Lake and Sumter County, respectively, are small businesses. Specific revenue information was not readily available for all business loans. However, a sample of 10 commercial loans originated during this evaluation period revealed that 90% of these loans were to small businesses.

As our sample was limited, we also performed an analysis of business loans using loan amount as a proxy for the size of the business. The assumption is that small businesses will generally require small

loan amounts. A bank prepared analysis of all business loans originated in 1996 and 1997 further supports a reasonable record of lending to small businesses. The results of our analysis are shown in the table below.

Loan Size	Percentage of Sampled Loans
< \$100,000	74.10%
\$100,001 to \$250,000	17.27%
\$250,001 to \$500,000	4.32%
> \$500,000	4.32%

C Geographic Distribution of Loans

The geographic distribution of loans reflects a good penetration of geographies within each of the assessment areas. Our analysis compared the distribution of loans with the proportion of tracts by designated income level on an aggregate basis and within each assessment area. We analyzed the bank’s HMDA reportable loans originated in 1996 through December 1998 to evaluate lending patterns. For all the assessment areas combined, the bank made 41% of all mortgage loans in tracts designated low- or moderate-income compared to the 45% of these income level tracts within all three areas combined.

More consideration was given to the aggregate lending patterns and within Pasco County. We did not place as much emphasis on the geographic analysis of lending in Sumter and Lake County as both assessment areas were expanded in October/November 1998 with the branch openings. However, residential mortgage lending within each assessment area reflects a good distribution of loans within the moderate, middle and upper income census tracts given the proportion of each income tract within the county and the bank’s location. The results are summarized below.

	Pasco County	Lake County	Sumter County
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Income Level

	% Cens us Tract s	% of Loans	# of Branch es	% Cens us Tract s	% of Loans	# of Branch es	% BNA s	% of Loans	# of Branch es
Low	0%	NA	NA	0%	NA	NA	0%	NA	NA
Moderat e	67%	57%	2	41%	38%	1	14%	27%	0
Middle	33%	43%	0	56%	62%	1	86%	73%	2
Upper	0%	NA	0	4%	0%	0	0%	NA	0

Information regarding other types of lending based on location was not available.

C Response to Complaints

CNB received no complaints relative to Community Reinvestment Act performance.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

Our examination of compliance with antidiscrimination laws and regulations revealed no substantive violations.