



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 21, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Beach First National Bank
Charter Number 22995**

**1550 North Oak Street
Myrtle Beach, SC 29577**

**Comptroller of the Currency
ADC-Carolinas (Columbia)
6100 Fairview Road Suite 1154
Charlotte, NC 28210**

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.

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INSTITUTION'S CRA RATING

This institution is rated **Satisfactory**. The factors and data supporting this rating are as follows:

- **Loan to Deposit Ratio** – The institution exhibits a reasonable loan to deposit ratio.
- **Lending in Assessment Area** – The institution extends a substantial majority of its loans within the assessment area.
- **Lending to Borrowers of Different Incomes and Sizes** – The institution's record of lending to borrowers of different income level and sizes is adequate.
- **Geographic Distribution of Loans** – The institution's distribution of loans within its assessment area by geography is reasonable.
- **Response to Complaints** – The bank has not received any CRA related complaints during this evaluation period.

DESCRIPTION OF INSTITUTION

Beach First National Bank (BFN) is a \$118 million intrastate financial institution located in Myrtle Beach, South Carolina. BFN has three banking offices located in Horry County. These offices consisted of one main office and two branch offices located in Surfside Beach, South Carolina and North Myrtle Beach, South Carolina. All of the offices have ATM and drive-through facilities. The bank is located in a moderate-income census tract. BFN is a wholly owned subsidiary of Beach First National Bancshares, Incorporated (BFNB), a one-bank holding company. BFNB is headquartered in Myrtle Beach, South Carolina and had total assets of \$118 million as of December 31, 2002.

BFN offers a full range of banking products and services. As of December 31, 2002, loans totaled \$93 million and deposits totaled \$101 million. Loans represent 80% of total assets. The distribution of BFN's loan portfolio is as follows: 1-4 family residential properties (22%); commercial and commercial real estate (63%); construction and land development (6%), and consumer loans (9%). The bank has no agriculture related loans. As illustrated by their loan mix, BFN is primarily a commercial lender, and to a lesser extent, a home mortgage lender. As a result, our analysis of the bank's CRA performance was limited to a sample of commercial loans and the analysis of consumer mortgage loan information contained in the Home Mortgage Disclosure Act Loan Application Registers (HMDA-LARs) from 1999 to 2002.

BFN's tier one capital is \$11 million and their total risk-based capital to risk weighted assets equals approximately 13%, as of December 31, 2002. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs within its assessment area (AA). The bank opened for business in September 1996. BFN received a "Satisfactory" CRA performance rating in the CRA Public Evaluation dated February 23, 1998.

DESCRIPTION OF HORRY COUNTY

The bank is located within the Myrtle Beach, South Carolina Metropolitan Statistical Area (MSA) and their AA includes all of Horry County. The delineation meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. There are 39 census tracts within the AA consisting of one low-income census tract (3%), 5 moderate-income census tracts (15%), 24 middle-income census tracts (62%), and 8 upper-income census tracts (21%). BFN's main banking office is located in census tract 0506.00, a moderate-income tract.

Approximately 40,552 families reside in the AA. Of this total, 19% is categorized low-income, 19% is moderate-income, 23% is middle-income, and 39% is upper-income. The total population of the AA is approximately 144,053. We evaluated lending to borrowers of different incomes based on the 2002 statewide MSA median family income of \$47,100.

The overall economic condition of the AA is good. As of December 31, 2002, the unemployment rate remains unchanged at 4.2% for the county and remains below the 6% statewide average. The majority of jobs within Horry County relate to tourism. Major employers include the Horry County School District (3,900 employees), Wal-Mart (1,702 employees), and AVX (1,515 employees).

Competition in the AA is strong. There are 18 financial institutions operating in the AA, including branches of several multinational and regional banks, as well as credit unions and finance companies. BFN ranks eleventh in deposit market share with 2.44% of the county deposit base.

During our review, we determined the credit needs of the community through discussions with management and two community contacts. The community contacts consisted of local city and government officials. They identified affordable housing as a primary need that that banks are currently addressing. One contact indicated the local financial institutions should take a more proactive approach in funding programs for single-family affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our analysis was an evaluation of commercial and home mortgage loans, as these are the primary loan products based on the bank's current loan portfolio composition. In addition, affordable housing was identified as credit need within the community. We reviewed the bank's HMDA-LARs for 1999 to 2002 that include all home purchases, refinances, and home improvement loan products. We also selected a random sample of 25 commercial loans originated or purchased since the last examination. Our evaluation period covered January 1, 1998 through December 31, 2002. We used the loan samples to determine the bank's percentage of lending in the AA and the distribution by borrower income level.

Loan-to-Deposit Ratio

BFN's quarterly loan-to-deposit ratio during the evaluation period averaged 80%. This ratio is reasonable based on the bank's size, age, and operating history. There are no similarly situated institutions within the bank's AA based on the size or age of this institution for comparison purposes.

Lending in Assessment Area

A substantial majority of the bank's lending is within the AA with 92% of the number of loan originations within the AA and 91% of the dollar volume. By loan product, 91% of the number and 93% of the dollar volume of home mortgage loans were inside the AA. In terms of commercial loans, 96% of the number and 83% of the dollar volume were inside the AA.

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

BFN's distribution of home mortgage loans is reasonable. We reviewed all home purchase, refinance, and home improvement loans originated during 1999-2002 made within the MSA, to determine the bank's distribution of lending to borrowers of different incomes. The bank originated 6% and 13% of their home mortgage loans to low- and moderate-income borrowers, based on the number of loans sampled, respectively. Demographic information shows that 19% of the families in the AA are low-income and 19% are moderate income. The bank's lending volume to low-income borrowers is below AA demographics, but this low level of lending is mitigated as 32% of the low-income families live below the poverty level.

BFN's distribution of commercial loans is adequate. BFN originated 72% of their commercial loans to small businesses (businesses with revenues of \$1 million or less). This level of performance is slightly below the AA demographic information. Small businesses represent 81% of all businesses in the AA. The bank's level of performance is reasonable based on the age and operating history of the bank. Our analysis also reflected 49% of BFN's commercial loans were originated for amounts of \$100 thousand or less.

Geographic Distribution of Loans

BFN's distribution of home mortgage loans is reasonable. There were no loans made to low-income census tracts in the bank's AA. In moderate-income census tracts, the bank made 3% of their loans in these areas. The distribution of low-and moderate-income loans is below demographic data of 2% and 14% of owner-occupied units, respectively. The distribution levels are low considering one low-income census tract and 6 moderate-income tracts within the 39 census tract AA. The bank's performance to low- and moderate-income borrowers is mitigated since 43% and 28% of the units are rental occupied, respectively. Another factor that contributed to the bank's low performance in moderate-income tracts is that mobile homes represent 23% of the housing stock in the moderate-income tracts. Furthermore, finance companies provide most financing for mobile home purchases.

BFN's distribution of commercial lending within the assessment is reasonable. There were no loans made to low-income census tracts, which demographics show only 1% within the AA. The bank's lending in moderate-income census tract represents 17% of their commercial lending activity. This compares favorably to the demographics information, which shows 14% of businesses in the AA are located in moderate-income census tracts.

Responses to Complaints

BFN did not receive any CRA related consumer complaints during this evaluation period.

Fair Lending Review

We completed an analysis of 1999 to 2002 public comments, consumer complaint information, and Home Mortgage Data Act lending data according to the Comptroller of the Currency's risk based fair lending approach. Based on the analysis of information, we determined that a comprehensive lending examination was not required in connection with the CRA evaluation this year.

We conducted the latest comprehensive Fair Lending examination in January 2002. Based on previous Fair Lending examinations, the bank has a satisfactory record of complying with anti-discrimination laws and regulations.