



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 15, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank Northwest Florida
Charter Number 18214

101 East 23rd Street
Panama City, FL 32401-0000

Office of the Comptroller of the Currency

BIRMINGHAM FIELD OFFICE
100 Concourse Parkway Suite 240
Birmingham, AL 35244-1870

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.

This institution is rated Satisfactory.

- A majority of the loans and lending activities were made in the assessment area.
- The institution's loan-to-deposit ratio is considered reasonable given the bank's size, financial condition, and assessment area needs.
- The institution's distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The institution's geographic distribution of loans reflects excellent dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This examination was performed offsite. The loan data used was comprised of 2006 and 2007 Home Mortgage Disclosure Act (HMDA) data for the residential real estate originations and a sample of commercial real estate originations from 2004 - 2007. The sample was chosen by this office and the information for the sample was provided by the bank.

DESCRIPTION OF INSTITUTION

First National Bank Northwest Florida (FNB) is a \$120 million community bank headquartered in Panama City, Florida. FNB operates 2 full service offices in Panama City. Both locations have ATMs. FNB's business focus is primarily loans to small businesses, including a significant participation in government guaranteed loan programs. FNB has been designated a "Preferred Lender" by the U.S. Small Business Administration. The bank is also active in 1 - 4 family residential real estate originations. Net loans as a percentage of total assets were 61% as of September 30, 2008. FNB's capital base is strong with total capital of \$16 million. Its financial position enables it to meet the credit needs of the community and there are no legal impediments that would prevent it from meeting the credit needs of the community.

FNB's CRA performance was rated "Satisfactory" at its last examination, which is dated February 3, 2003. The review for this evaluation period was from January 1, 2003 to December 31, 2007.

The composition of the loan portfolio, based on the September 31, 2008 Call Report, provides further indication of the bank's role as primarily a small business lender.

Loans by Category		
Loan Type	\$ (000's)	% of Portfolio
Residential Real Estate	22,893	30.4
Commercial and Industrial	2,085	2.8
Commerical Real Estate (including loans to small businesses)	49,751	66.2
Consumer	480	0.6
Total	75,209	100.0

Source: September 30, 2008 Call Report

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's assessment area (AA) consists of Bay County within the geographical area of northwest Florida known as the Panhandle.

Bay County, Florida is known as the Panama City MSA. This area contains one low, ten moderate, twelve middle and six upper-income census tracts (hereafter referred to as "tracts"). FNB has not arbitrarily excluded low-income geographies and the assessment area meets the requirements of the act.

The following table highlights the demographic composition of the AA.

Demographic and Economic Characteristics of the Panama City MSA	
Population	
Population	148,217
Number of Families	40,653
Geographies	
Number of Census Tracts	29
% Low-Income Census Tracts	3.4%
% Moderate-Income Census Tracts	34.5%
% Middle-Income Census Tracts	41.4%
% Upper-Income Census Tracts	20.7%
Median Family Income (MFI)	
2000 Median Family Income	\$43,088
2008 HUD Adjusted Median Family Income	\$53,800
Economic Indicators	
Unemployment Rate	2.3%
2000 Median Housing Value	\$89,146
% Households Below Poverty	12.7%

Source: Data reported under HMDA

Owner occupied housing represents 52% of the assessment area housing stock. Tyndall Air Force Base is the major employer. However, the jobs in the engineering and

aeronautic fields require highly specialized skills. The disadvantage is the lower wages of the other services serving the needs of the military. Also, the base operates as a self-contained area and provides housing and operations, which limits mortgage and business opportunities

The MSA has shown good growth with a 17% increase in population over the previous 10 years. The unemployment rate for Bay County was 2.3%. This is above/below the state average of 7.3%.

Strong competition from local credit unions and other banks, local and regional has influenced FNB's decision to concentrate on lending to small businesses. In Bay County there are 24 banks and credit unions and 89 offices with deposits of \$3.5 billion. FNB ranks 11th of 25 in the MSA.

The community contact made in conjunction with this examination was obtained through a department of the city of Panama City. The contact indicated that primary credit needs affordable housing products as many of the jobs in the area are considered low wage and found in the service and tourism sectors. There are programs initiated by the city that the area banks can participate in to assist in providing affordable housing products to the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on loan mix, we determined that FNB's primary loan product is loans to businesses secured by commercial real estate, including Small Business Administration loans. The secondary product is a 1-4 family residential loan products which the bank originates and maintains in its portfolio. We reviewed HMDA data for the years 2006-2007. We also selected a random sample of 28 commercial loans secured by real estate originated during 2004-2007. This sample was used to determine the bank's percentage of lending in the AA and distribution by borrower income levels and businesses of different sizes.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance. The bank's average quarterly LTD ratio since the last CRA examination in February 2003 is 82%. The bank's average LTD ratio is consistent with banks of similar size in the state of Florida. This ratio is considered reasonable given FNB's capacity and opportunities to lend within its AA.

Lending in Assessment Area

A majority of loans and other lending activities are in the assessment area. Lending levels reflect satisfactory responsiveness to the community credit needs because a

majority of loans are in the assessment area. The period of review included loan originations from January 1, 2006 to December 31, 2007 from the HMDA Loan Application Registers. Additionally, a sample of 28 business loans was selected from commercial real estate lending from 2004 to 2007. Since the last examination, a majority of the bank’s loan originations were for business purposes and secured by real estate. The secondary type is residential real estate lending of which the majority of loans were determined to be home purchase and home refinance. The following table illustrates the percentage of loans in the assessment area.

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Real Estate	17	60.7	11	39.3	28	8,578	36.6	14,865	63.4	\$23,443
Residential Real Estate	27	81.8	6	18.2	33	7,914	83.8	1,536	16.2	\$9,450
Totals	44	72.1	17	27.9	61	16,492	50.1	16,401	49.9	\$32,893

Source: Commercial Real Estate – Sample of loans; Residential Real Estate - Data reported under HMDA

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

Residential Real Estate

The borrower distribution of residential real estate loans reflects poor penetration among individuals of different income levels. The bank had 7.4% made in moderate income areas. This is compared to 19.5% of families considered to have low income levels and 18.1% of families considered to have moderate income levels.

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		0.0		4.6		13.6		72.7
Home Refinance		0.0		0.0		0.0		33.3
Home Improvement		0.0		50.0		0.0		50.0
Totals	19.5	0.0	18.1	7.4	22.0	11.1	40.4	66.7

Source: Data reported under HMDA (14.8% of the borrowers did not report income)

The local real estate market and national economy have caused the volume of home sales in the area to decline during the evaluation period. The bank had limited

opportunities to originated residential real estate loans which contributed to the bank's poor performance in the distribution of these loans among low- to moderate-income individuals.

Commercial Real Estate

The geographic distribution of commercial real estate loans reflects excellent penetration among businesses of different sizes. The bank had 94.1% of its commercial real estate loans made to small businesses. This is compared to 63.6% of area businesses being classified as small businesses under CRA.

Table 2A - Borrower Distribution of Loans to Businesses in the Panama City MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	63.6	3.9	32.5	100%
% of Bank Loans in AA by #	94.1	5.9	0	100%
% of Bank Loans in AA by \$	98.3	1.7	0	100%

Source: Commercial Real Estate – Sample of loans

Geographic Distribution of Loans

Residential Real Estate

The geographic distribution of residential real estate loans reflects excellent dispersion throughout the assessment area. The bank had 3.7% of its home loans made in low income areas and 22.2% made in moderate income areas. This is compared to 1.0% of owner occupied homes located in low income areas and 19.7% of owner occupied home located in moderate income areas.

Table 3 - Geographic Distribution of Residential Real Estate Loans in the Panama City MSA								
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		4.6		22.7		63.6		9.1
Home Refinance		0.0		0.0		0.0		100.0
Home Improvement		0.0		50.0		50.0		0.0
Totals	1.0	3.7	19.7	22.2	56.3	55.6	23.0	18.5

Source: Data reported under HMDA

Commercial Real Estate

The geographic distribution of commercial real estate loans reflects excellent dispersion throughout the assessment area. The bank had 35.3% of its commercial real estate loans made in moderate income census tracts. This is compared to 0.8% of businesses located in low income census tracts and 28.6% located in moderate income census

tracts.

Table 3A - Geographic Distribution of Loans to Businesses in the Panama City MSA								
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
Commercial Real Estate	0.8	0.0	28.6	35.3	49.4	58.8	21.2	5.9

Source: Commercial Real Estate – Sample of loans

Responses to Complaints

The bank did not receive any complaints regarding its performance under CRA during the 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.