



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 27, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**1st National Bank of South Florida
Charter Number 13641**

**1550 North Krome Avenue
Homestead, FL 33030**

**Comptroller of the Currency
South Florida (Miami)
9800 Northwest 41st Street Suite 120
Miami, FL 33178**

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.

Table of Contents

Institution’s CRA Rating..... 2

Description of Institution..... 2

Description of the Assessment Area..... 3

Conclusions About Performance Criteria Loan to Deposit Ratio 4

Lending in the Assessment Area 5

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes 5

Geographic Distribution of Loans 7

Community Development Services 8

Response to Complaints 9

Fair Lending Review 9

Institution's CRA Rating:

This institution is rated **Outstanding**.

We evaluated the 1st National Bank of South Florida's performance using the small bank performance criteria. In addition, we evaluated the bank's performance in providing community development loans and services in the assessment area. Our evaluation covered the period from December 1997 through December 2003. For the evaluation of borrowers of different income levels and businesses of different sizes and the geographic distribution of loans, the evaluation period was January 1, 2001 through December 31, 2002. Small business lending received the greatest weight since it is the bank's primary business strategy.

The primary factors supporting the bank's **Outstanding** performance include:

- The distribution of loans among borrowers of different income levels and businesses of different sizes exceeds the standards for satisfactory performance,
- The geographic distribution of loans exceeds the standards for satisfactory performance, and
- The bank's performance in providing retail services and community development services is outstanding.

Description of the Institution

The 1st National Bank of South Florida (FNBSF) is a community bank headquartered in Homestead, Florida. Founded in 1932, it operated as the *First National Bank of Homestead* until June 2001, when the name was changed. FNBSF is owned by First of Homestead, Inc., a one-bank holding company.

The bank has six offices, one of which was opened since the bank's last CRA evaluation. As of December 31, 2003, FNBSF reported total assets of \$240 million and total deposits of \$213 million. The bank's primary business focus is small business and commercial real estate lending. The breakdown of the bank's \$116 million loan portfolio, which represents 48% of total assets, is as follows: 65% commercial real estate, 10% construction, 9% residential, 5% commercial, 11% home equity and installment loans. The bank is well capitalized, with \$22.2 million in Tier 1 leverage capital and a Tier 1 leverage capital ratio of 9.49%.

No financial or legal impediments exist that would impair the bank's ability to comply with the CRA. At its last CRA examination, dated November 24, 1997, the bank was rated "Outstanding".

Description of the Assessment Area

FNBSF's assessment area includes the southern portion of Miami-Dade County, about 30 miles south of Downtown Miami. Its general boundaries are Kendall to the north, the Atlantic Ocean to the East, the Florida Everglades to the west and the Miami-Dade/Monroe County line to the south. Cities in the assessment area include Homestead, Florida City, Leisure City, Princeton, Goulds, and Palmetto Bay.

Based on the 2000 Census, the assessment area includes 100 of the 347 census tracts in the Miami-Dade Metropolitan Statistical Area (MSA). The assessment area does not include the entire MSA but meets the requirements of the regulation, since it is based on entire census tracts and does not arbitrarily exclude low- or moderate-income geographies. Of the 100 census tracts, 2% are low-income, 11% are moderate-income, 25% are middle-income and 62% are upper-income.

The 2000 Census revealed that the bank's assessment area has a population of 690,722, a 19% increase since 1990. The income level of families in the assessment area is distributed as follows: 14% are low-income, 12% are moderate-income, 18% are middle-income and 56% are upper-income. Within the assessment area, 8.3% of households are considered to be below the poverty level. The HUD adjusted median family income for the Miami-Dade MSA was \$48,200 for 2002.

In August 1992 Hurricane Andrew devastated South Florida. South Miami-Dade County, particularly the Homestead area, was one of the most affected areas. Homestead lost 40,000 jobs due, in part, to the subsequent closing of the Homestead Air Force Base and the damage suffered by local farms. The population in the city declined significantly, reducing the tax base. Agricultural and tourism industries were severely affected. The City of Homestead experienced financial difficulties in the post Hurricane Andrew economy.

Although most of Miami-Dade County has fully recovered from this disaster, in Homestead the recovery has been slow. In 2002 the population finally exceeded 1992 levels. County planners estimate that Homestead will not attain the population projected for the year 2000 prior to the hurricane until 2006. Economic development in the area has been slow, in spite of efforts by the federal and state government to increase business opportunities by declaring most of Homestead and Florida City as Empowerment Zones.

Agriculture remains a dominant factor in Homestead. This industry has undergone significant changes due to competitive factors related to the North American Free Trade Agreement (NAFTA) and the destruction of the citrus industry by citrus canker. Traditional local crops have been replaced by nursery-based agriculture. This industry is a more consistent, year-round industry, allowing the work force the opportunity to establish continuity in the area. The local tourist industry has rebounded. The Homestead/Miami Speedway hosts several auto racing events that bring many enthusiasts to the area. What is now the Homestead Air Reserve Base is expanding and may eventually contribute to the economic activity in the area. Several government agencies are considering locations adjacent to the base.

Significant economic growth is expected in the area in the next few years. As undeveloped land has been exhausted in the Miami area, large parcels of farmland in the assessment area have been sold to housing developers. The construction of 14,000 planned new homes within the Homestead city limits is projected to double the population in five years. Construction of houses and commercial centers to serve the new residents are already in progress.

Community contacts conducted for this and other examinations of banks operating in the Miami-Dade MSA identified small business loans, loans for the construction or acquisition of affordable rental and owner-occupied housing and agricultural loans as major credit needs. The bank faces strong competition in these areas from local banks and credit unions, as well as branches of some of the largest banks in the nation.

There are numerous opportunities for community development loans, investments and services in the bank's assessment area. There are many local organizations whose primary mission is to improve the living conditions of the low- and moderate-income segment of the community by providing affordable rental housing or community services, health care, family assistance and youth programs. Examples include the Everglades Community Association, Centro Campesino and LeJardin Community Center.

Also, the City of Homestead Community Redevelopment Agency established several programs to promote economic development and activities that revitalize or stabilize the community. These include the City of Homestead CRA Fund and the newly established Homestead CRA Loan Pool. As previously mentioned, redevelopment zones designated by the federal, state and local government also offer community development opportunities and there are many non-profit organizations that rely on donations to fund their programs targeted to low- and moderate-income persons and families.

Conclusions About Performance Criteria

Loan-to Deposit Ratio

The bank maintained an average quarterly loan-to-deposit ratio of 54% since the last CRA evaluation. Although this ratio is below that of a national peer group for the same time period (75%), the ratio is considered reasonable considering contextual factors in the bank's assessment area and the level of the bank's community development lending. There are no community banks substantially similar to FNBSF operating in the assessment area.

As part of its lending activity during the evaluation period, FNBSF originated 14 loans totaling \$4.0 million in its assessment area that meet the definition of community development loans. Most notable is the bank's financing of a 104 unit building that provides affordable rental housing for low- and moderate-income persons. All of the units are United States Department of Housing and Urban Development (HUD) Section 8 housing. Affordable rental housing is responsive to a documented need in the bank's assessment area.

Lending in the Assessment Area

Lending in the bank's assessment area exceeds the standards for satisfactory performance, given performance context. The majority of loans originated, both in number and dollar amount, during the evaluation period were inside the assessment area.

A substantial majority of housing related loans were inside the assessment area. The level is lower for small business loans. However, it must be noted that most of the small business loans made outside the assessment area were very close to it. Of the 64 loans made outside the assessment area, 40 (63%) were just outside the assessment area, in adjacent central Miami-Dade County and 14 (22%) were in adjacent Monroe County (Florida Keys). Only 10 loans (7%) were in areas that are not directly adjacent to the bank's assessment area.

As previously discussed, the economy in the assessment area was weak during the evaluation period and competition was strong. As a result, sound small business lending opportunities were limited. Therefore, the bank reached somewhat beyond its assessment area boundaries in order to originate loans.

Table 1 - Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Housing related	107	89	13	11	120	12,615	87	1,942	13	14,557
Small business	82	56	64	44	146	12,705	47	14,569	53	27,274
Totals	189	71	77	29	266	25,320	61	16,511	39	41,831

Source: Data reported under HMDA for 2001 and 2002, bank data for small business loans originated 2001 and 2002.

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

Lending to borrowers of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance, given performance context.

The bank's origination of small loans to businesses of different sizes exceeds the standards for satisfactory performance.

A sample of 20 loans made within the assessment area shows that 90% of loans sampled were to small businesses (businesses with gross annual revenues of \$1million or less). This percentage substantially exceeds the level of businesses in the assessment area having revenues of \$1 million or less.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	55.5	4.20	40.65	100%
% of Bank Loans in AA by #	90.0	10	0	100%
% of Bank Loans in AA by \$	94.0	6	0	100%

Source: Loan sample; D&B 2002 data.

A review of the dollar amount of small loans to businesses originated in 2001 and 2002 supports the conclusion that the bank's performance regarding lending to small businesses exceeds the standards for satisfactory performance. Loans in the bank's portfolio made within the evaluation period were categorized according to size, under the assumption that small businesses require smaller loan amounts.

Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	44	51	1,800,336	9
\$100,001 - \$250,000	23	27	3,684,934	19
\$250,001 - \$500,000	10	12	3,741,144	20
\$500,001 - \$1,000,000	5	6	3,478,676	18
Over \$1,000,000	4	5	6,273,000	33

Source: Data collected by the bank.

The table shows that 78% of loans were for \$250 thousand or less, and 90% were for \$500 thousand or less, suggesting that a substantial majority of loans were to small businesses.

The bank's housing related loans originated to borrowers of different income levels also exceeds the standards for satisfactory performance, given performance context. High housing costs and low-income levels make it very difficult for low-income borrowers to afford homeownership. Low-income borrowers earned, at most, \$24,100 in 2002. The median cost of housing in the assessment area for 2002 was \$151,492. Also, based on the 2000 Census, 8.3% of households are below the poverty level. Therefore, most consideration was given to the bank's performance relative to moderate-income borrowers.

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	13.5	4.4	12.2	22.2	17.9	17.8	56.4	51.1
Home Improvement	13.5	12.5	12.2	25.0	17.9	25.0	56.4	37.5
Home Refinance	13.5	5.6	12.2	14.8	17.9	24.1	56.4	48.1

Source: Data reported under HMDA 2001 and 2002; U.S. Census data (1990).

The bank's performance relative to residential real estate loans to low-income borrowers, as

shown in the above table, meets the standards for satisfactory performance, given the performance context issues discussed above for home purchase, home improvement, and home refinance loans.

The bank’s residential real estate loan performance to moderate-income borrowers exceeds standards for satisfactory performance. The table shows that the percentage of loans originated to moderate-income borrowers significantly exceeded the percentage of moderate-income families in the assessment area for home purchase and home improvement loans. The percentage of loans to moderate-income borrowers also exceeded the percentage of moderate-income families in the assessment area for home refinance loans.

Geographic Distribution of Loans

The geographic distribution of loans exceeds the standards for satisfactory performance.

The percentage of small loans to businesses originated in low- and moderate-income tracts significantly exceeds the percentage of businesses in those tracts, as shown in the following table.

Table 3 - Geographic Distribution of Small Business Loans in the Assessment Area								
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
Small Business	1.8	14.3	4.4	7.1	12.7	51.8	81.1	26.8

Source: Data collected by bank; D & B data (2002).

The distribution of housing-related loans originated during the evaluation period also exceeds the requirements for satisfactory performance. This conclusion is primarily based on performance in moderate-income tracts, as housing-related lending opportunities are very limited in low-income tracts. Less than 1% of owner-occupied housing units are located in low-income tracts.

The percentage of home purchase loans made in low- and moderate-income tracts exceeds the percentage of owner-occupied housing in the same tracts, as illustrated in the following table. The bank originated no home improvement loans in low-income tracts, but the level of loans in moderate-income tracts significantly exceeds the level of owner-occupied housing units in those tracts. No home refinance loans were originated in low-income tracts. In moderate-income tracts the percentage of refinance loans was somewhat lower than the percentage of owner-occupied housing units in those tracts.

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	<1%	4.4	3.2	4.4	20.0	46.7	76.0	44.4
Home Improvement	<1%	0	3.2	12.5	20.0	25.0	76.0	62.5
Home Refinance	<1%	0	3.2	1.9	20.0	66.7	76.0	31.5

Source: Data reported under HMDA; U.S. Census data (1990).

Community Development Services

The bank's performance in providing services is outstanding.

Retail Banking Services

FNBSF's delivery systems are readily accessible to all segments of the bank's assessment area, particularly the low-and moderate-income areas where four of the six branches (67%) are located. A fifth branch, located outside the Homestead Air Reserve Base, is in a census tract that received no income designation in the 2000 Census because no one resides there. In the 1990 Census the tract had a moderate-income designation. In comparison, the 2000 Census showed that 12% of the households in the assessment area reside in low-and moderate-income tracts.

During the evaluation period one branch was opened in a moderate-income tract of Kendale Lakes. No branches were closed. Office hours and services offered, as described in the Public File, are comparable at the various branch locations.

Community Development Services

FNBSF's community development service performance is excellent, considering the bank's size and capacity. The bank is a leader in providing community development services in its assessment area.

Bank management and staff provide technical assistance to numerous organizations in the bank's assessment area that provide services meeting the definition of community development. The bank has taken a leadership position in the formation of several of these community development organizations. It provides continuous support to the organizations, both public and private, mentioned in the **Description of the Assessment Area** section as well as to many other organizations in the assessment area.

The bank's role as a sponsor of the Everglades Community Organization demonstrates its commitment to meeting community development service needs of its assessment area. For more than seven years FNBSF has partnered with this organization to help it obtain grants from the Federal Home Loan Bank of Atlanta's (FHLB) Affordable Housing Program. Participation in the Affordable Housing Program is complex, requiring considerable administrative time and expertise including, the review of grant applications, disbursement of FHLB's funds as they are received and submission of semi-annual progress reports. Three grants totaling \$1.3 million were approved during the evaluation period for the construction of rental units affordable to low-income migrant workers.

Response to Complaints

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

Fair Lending Review

We found no evidence of illegal discrimination or other illegal practices.