



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

November 14, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank of Commerce  
Charter Number 24497

813 Shades Creek Parkway  
Birmingham, AL 35242

Office of the Comptroller of the Currency

3595 Grandview Parkway, Suite 655  
Birmingham, AL 35243

**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.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Summarize the major factors supporting the institution's rating.

- The bank's geographic distribution of loans is reasonable. Their dispersion of loans by borrower income level or revenues of the business is also reasonable.
- The bank demonstrated adequate responsiveness to meeting the Community Development needs of the community through loans, investments and services.

## **Scope of Examination**

National Bank of Commerce (NBC) qualifies as an Intermediate Small Bank under the CRA regulation and is therefore subject to being evaluated under the lending and community development (CD) tests.

The scope of this evaluation included all loans subject to filing under the Home Mortgage Disclosure Act (HMDA). The evaluation period for HMDA loans includes all loans made from January 1, 2009 through December 31, 2011. NBC changed software vendors and was unable to recover automated versions of their 2007 and 2008 HMDA Loan Application Registers. Therefore, 2007 and 2008 HMDA loans were not included in this evaluation and were not analyzed.

The bank voluntarily started collecting small business data subject to filing under CRA. This data was used to evaluate the bank's small business lending performance. The small business evaluation period under the lending test includes all loans originated or purchased from January 1, 2009 until December 31, 2011.

The scope of the CD test included all activity which meets the definition of CD loans, investments and services. The evaluation period for CD loans, investments and services includes all activities from June 4, 2007 until November 14, 2012.

## **Description of Institution**

NBC is a \$541 million intrastate institution headquartered in Birmingham, AL. The bank opened in 2004 as Red Mountain Bank. Red Mountain was wholly owned by Americus Financial Services. In 2010, the Charles Investment Group was formed for the purpose of acquiring a controlling interest in Americus. Charles Investment injected \$62 million in capital into Americus which gave them 67.5 percent ownership. Concurrently with the capital injection a new management team was installed into the bank. The name of the bank was changed from Red Mountain Bank to National Bank of Commerce and the holding company's name was changed from Americus to National Commerce Corporation.

NBC is wholly owned by National Commerce Corporation, a one bank holding company also headquartered in Birmingham, AL. The holding company's only asset is NBC.

NBC is primarily a commercial lender. The commercial portfolio represents 71 percent of the bank's loan portfolio. As of 12/31/2011, the bank's loan mix was as follows: commercial and industrial (14 percent), commercial real estate (42 percent), construction (15 percent), residential mortgage (19 percent), home equity lines of credit (8 percent) and all other (2 percent). Tier 1 capital was \$73 million.

In 2011, the mortgage department entered into agreements with several investors to offer secondary mortgage loan products. Most of the applications are underwritten by the investor and are therefore recorded on the investor's HMDA LAR.

NBC stopped making residential construction and development loans in the Birmingham market in 2012. This decision was made because there was a lack of demand for the product and the amount of resources required to make these loans. The bank's primary consumer product is home equity lines of credit (HELOC). However, NBC elected not to collect HELOC data for CRA purposes as it represents a small segment of their loan portfolio.

Competition in the Birmingham MSA is moderate. There are 38 financial institutions in the MSA operating out of 277 banking offices. The MSA is dominated by 3 large financial institutions; Regions Bank, Compass Bank and Wells Fargo. These institutions have over \$18 billion in deposits in this AA with 130 banking offices and a combined deposit market share of 69 percent. NBC has 3 banking offices and is ranked number 11 in the MSA with a deposit market share of 1.21 percent.

The bank received a Satisfactory rating at the last CRA examination dated June 2007. We did not identify any legal, financial or other factors which would impede the bank from meeting the credit needs of the community.

## **Description of Assessment Area(s)**

NBC has 7 banking offices and 5 Automated Teller Machines located throughout 4 assessment areas (AAs) in Alabama. The bank's primary market area is the eastern portion of Jefferson and Shelby counties in the Birmingham MSA. NBC has also designated the Huntsville and Auburn-Opelika MSAs and Baldwin County as their AA. All of the bank's AAs include whole census tracts and meet the requirements of the regulation.

NBC has 3 banking offices in the Birmingham AA, 2 in Baldwin County and 1 in each of the remaining AAs. All of the bank's banking offices are located in either middle or upper-income census tracts.

NBC opened banking offices in the Huntsville, Auburn and Baldwin County AAs during 2010 and 2012. As a result, these AAs were not included in this Performance Evaluation and were not analyzed.

The Birmingham-Hoover MSA is the 49<sup>th</sup> largest MSA in the country. The population in the MSA has grown 22 percent from 2000 to 2010. Based on 2000 census data, 10 percent of the families and 13 percent of the households in the MSA live below the poverty level. The HUD estimated median family income for the MSA for 2011 was \$62 thousand.

The Birmingham AA is supported by a diverse mix of corporations and employers with emphasis on banking, health care, biotechnology research, distribution, higher education and automobile manufacturing. The region has a growing automobile manufacturing sector with Mercedes and Honda plants within forty miles of Birmingham and Hyundai, International Diesel and Toyota Motor Manufacturing Alabama within 85 miles of the city. Also, the MSA is centrally located in the Southeastern United States and has an interstate transportation network that makes it attractive as a distribution center. Companies such as Home Depot, Sysco Food Services, and Dollar General have opened regional distribution centers in the region over the last decade.

Major employers in the region include Alabama Power, Blue Cross/Blue Shield, Drummond Coal and the University of Alabama in Birmingham. Birmingham is also home to HealthSouth, one of the nation's largest rehabilitation hospital companies. The Birmingham economy was affected by the recession and saw unemployment rates increase from 3.4 percent in 2007 to 9.8 percent in 2009. The unemployment rate at year end 2011 was 6.8 percent which compares favorably to the U.S. unemployment rate of 8.3 percent.

The OCC's Community Affairs Officer contacted a Community Development Corporation (CDC) that operates in the Birmingham MSA as part of this examination. The CDC representative indicated that there is a need for short-term financing and that smaller or micro-businesses need access to liquidity and credit. The individual also stated that there is an opportunity for financial institutions to provide community organizations with technical assistance and to assist with workshops and training programs.

There is ample opportunity to make CD loans and investments and provide CD services in the Birmingham AA. We identified several CD organizations that operate in this AA including a CDC and several affordable housing and community services agencies and organizations that promote economic development.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank’s geographic distribution of loans is reasonable. Their dispersion of loans by borrower income level or revenues of the business is also reasonable.

**Loan-to-Deposit Ratio**

The bank’s quarterly average loan-to-deposit (LTD) ratio is more than reasonable at 90.92 percent compared to a peer average of 76.61 percent. During the 23 quarters since their last CRA examination, NBC’s quarterly average LTD ranged from a low of 73.88 percent to a high of 105.41 percent.

We did not identify any similarly situated institutions that operate in the bank’s primary market area. However we did identify 8 peer banks with similar asset size that operate throughout the state of Alabama. The peer banks were financial institutions with assets between \$410 million and \$603 million and had average LTD ratios that ranged from a high of 99.40 percent to a low of 53.33 percent.

**Lending in Assessment Area**

NBC’s lending in its AA reflects good performance. A majority of the bank’s loans were made inside their AAs. Overall, 88 percent of the number of loans and 70 percent of the dollar amount of loans made during this evaluation period were inside the bank’s AAs. This assessment was made on the entire bank rather than by assessment area. By individual loan product, 77 percent of the number of HMDA loans and 83 percent of small business loans were made inside the bank’s AAs. Whereas, 79 percent of dollar amount of HMDA loans and 78 percent of small business loans were made inside their AAs.

A breakdown of the individual loan product follows:

Entire Bank – All AAs

**Table 1 - Lending in AA**

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	151	78.65	41	21.35	100.00	39,571	84.08	7,490	15.92	100.00
Home Improvement	4	80.00	1	20.00	100.00	519	85.93	85	14.07	100.00
Refinance	144	75.00	48	25.00	100.00	42,970	75.25	14,132	24.75	100.00
Small Business	368	82.88	76	17.12	100.00	89,211	77.85	25,382	22.15	100.00

Source: Data reported under HMDA. Data collected by the bank.

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

NBC’s primary market area is the Birmingham AA. This AA received a full-scope review. We did not analyze the Huntsville, Auburn or Baldwin County AAs as these banking offices were opened during the evaluation period.

Birmingham AA

<b>Table 2 – Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65.11	4.14	30.33	100%
% of Bank Loans in AA by #	22.39	32.85	44.76	100%
% of Bank Loans in AA by \$	26.78	42.59	30.63	100%

Source: Data collected by bank; Dunn and Bradstreet data.

Birmingham AA

<b>Table 3 – Borrower Distribution of Loans to Businesses by Loan Size in AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	117	43.02	5,147	7.96
\$100,001 - \$250,000	67	24.63	11,730	18.13
\$250,001 - \$500,000	88	32.35	47,814	73.91
\$500,001 - \$1,000,000	0	0	0	0
Over \$1,000,000	0	0	0	0

Source: Data collected by bank.

NBC's distribution of small business loans is reasonable. The revenues were unknown for a substantial portion of the small business loans made during this evaluation period. As a result, we used the loan size as a proxy to estimate the revenues of the business. Based on the loan size, the majority of the loans were made for dollar amounts less than \$250 thousand. Thereby, we determined that these loans were probably made to businesses with revenues less than \$1 million. This performance is reasonable.

As illustrated above, an adequate number of the loans made for amounts less than \$100 thousand. This indicates that the bank is meeting the smaller dollar needs of small businesses.

Birmingham AA

<b>Table 4 - Borrower Distribution of Residential Real Estate Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Home Purchase	16.86	1.33	13.34	8.00	17.59	18.67	52.21	58.67
Home Improvement	16.86	0.00	13.34	0.00	17.59	0.00	52.21	0.00
Refinance	16.86	4.46	13.34	11.61	17.59	78.57	52.21	5.36

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

*Note Does not total to 100%; income was not available for 13.33% of home purchase loans..*

NBC’s distribution of home purchase and refinance loans is poor. Their distribution of home purchase loans to both low- and moderate-income borrowers is significantly lower than the percentage of these families in the AA. This is considered poor performance. Their distribution of refinance loans to low-income borrowers is also poor and significantly lower than the demographic comparator. However, the bank’s distribution of refinance loans to moderate-income borrowers is adequate and is near the percentage of moderate-income families in the AA.

We did not analyze home improvement loans as the bank made an insufficient volume of loans to perform a meaningful analysis. NBC made one home improvement loan whereas they made 75 home purchase and 112 refinance loans.

**Geographic Distribution of Loans**

Overall, the geographic distribution of loans is reasonable. The distribution of HMDA loans is poor while the distribution of small business loans is excellent.

Birmingham AA

<b>Table 5 - Geographic Distribution of Loans to Businesses in 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
Small Business Loans	11.78	19.86	7.28	7.58	18.64	9.39	62.29	63.18

*Source: Data collected by bank; D & B data.*

The bank’s distribution of loans in both low and moderate-income census tracts exceeds the percentage of businesses in these tracts in the AA.

Birmingham AA

<b>Table 6 - Geographic Distribution of Residential Real Estate Loans in 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	3.30	0.00	10.48	9.33	18.83	13.33	67.39	77.33
Home Improvement	3.30	0.00	10.48	100.00	18.83	0.00	67.39	0.00
Refinance	3.30	0.89	10.48	2.68	18.83	9.82	67.39	86.61

*Source: Data reported under HMDA; U.S. Census data.*

The bank made no home purchase loans in low-income tracts. This reflects very poor performance. Their geographic distribution of home purchase loans in moderate-income tracts is reasonable and near the percentage of owner-occupied units in these tracts. Their distribution of refinance loans in both low- and moderate-income tracts is also poor and is significantly lower than the demographic comparator.

We reviewed the bank's lending patterns to determine whether there were gaps or areas of low penetration in the distribution of their loans. We did not identify any gaps or areas of low loan penetration. During this evaluation period, the bank made loans in most census tracts.

### **Responses to Complaints**

No CRA related complaints were made against the bank during this evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

### **Number and Amount of Community Development Loans**

NBC's CD lending levels reflect adequate responsiveness to meeting the credit needs of the community. During the evaluation period, the bank made one qualified CD loan for \$200 thousand. This loan was made to an organization that provides community services targeted to low- and moderate-income individuals. NBC's CD lending represents 0.27 percent of Tier I capital.

NBC also participates in an affordable housing loan consortium that provides permanent mortgages for multi-family housing. Most of the consortium's projects are new construction that uses low-income housing tax credits. The organization promotes the revitalization of distressed and underserved neighborhoods. These loans were made throughout the state of Alabama. NBC has a \$500 thousand loan commitment in this loan pool and funded \$74 thousand in loans during this evaluation period.

NBC also has 3 standby letters of credit for \$12 thousand to a nonprofit dental clinic in the AA.

### **Number and Amount of Qualified Investments**

NBC's level of CD investments reflects adequate responsiveness to meeting the needs of the community. During this evaluation period, NBC made 38 grants/donations totaling \$92 thousand to qualified community development organizations. The investments were made to organizations that provide community services or affordable

housing to low- and moderate-income individuals or that stabilize or revitalize low-or moderate-income geographies.

### **Extent to Which the Bank Provides Community Development Services**

NBC's level of CD services reflects reasonable responsiveness to meeting the financial service needs in the community. During this evaluation period, 15 bank employees provided financial services to 10 different qualified CD organizations. Examples of the types of services provided include:

- Serving on the Board or Loan Committee for a Community Development Corporation
- Serving on the finance committee for a nonprofit organization that provides housing for homeless and abused children
- Serving on the Board and Executive Committee for an organization that promotes economic development in downtown Birmingham.

NBC also provided financial educational seminars on topics such as budgeting, homeownership, home buyer education, and identity theft. Also, the bank recently conducted a seminar for small businesses on alternative banking products such as ACH and remote deposit capture. The seminars are hosted by a CD organization and NBC provides the materials and the instructors.

### **Responsiveness to Community Development Needs**

NBC demonstrated adequate responsiveness to meeting the CD needs of the community. This is evidenced by their participation and sometimes leadership on various committees and boards that provide affordable housing or community services to low- or moderate-income individuals or that provide economic development to the community.

The bank has demonstrated a commitment to the community by financing CD loans in the community as well as providing grants and donations to CD organizations that operate in the area.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.