



PUBLIC DISCLOSURE

December 02, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

1st National Bank of South Florida
Charter Number 13641

1550 North Krome Avenue
Homestead, FL 33030

Office of the Comptroller of the Currency

Doral Costa Office Park
9800 NW 41st Street, Suite 120
Miami, FL 33178-2970

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

The primary factors supporting the Bank's **Satisfactory** performance include:

- The Bank's loan-to-deposit ratio is reasonable,
- The distribution of loans among businesses of different sizes exhibits an excellent penetration and exceeds the standards for satisfactory performance,
- The geographic distribution of loans indicates a reasonable dispersion in the assessment area meeting the standards for satisfactory performance, and
- The Bank's performance in providing retail services and community development services reflects adequate responsiveness to the community needs of the assessment area (AA).

Scope of Examination

We evaluated the 1st National Bank of South Florida's performance using the intermediate small bank performance criteria that includes the Lending Test and the evaluation of the Bank's performance in providing community development loans and services in the assessment area. This performance evaluation covers activities from November 15, 2010, through December 2, 2013; however, the lending test evaluation period is January 1, 2011, through September 30, 2013. The evaluation is based on accurate data and focuses on all business loans originated during the evaluation period. Loan reports, community development loans, investments, and services submitted by Bank management were verified to ensure accuracy and to ensure applicable activities met the regulatory definition for community development.

Business lending is the Bank's primary business strategy. Residential lending opportunities were limited given a weak residential market during the evaluation period. Lending volumes did not produce a meaningful analysis.

Description of 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 a wholly owned subsidiary of Hometown of Homestead Banking Company headquartered in Homestead, Florida, with total assets of \$307.5 million as of September 30, 2013.

The Bank operates seven offices in the AA. There have been no branch closures or openings during the evaluation period. The Bank offers a variety of deposit and loan products for businesses and individuals, as described in the Community Reinvestment Act (CRA) Public File. As of September 30, 2013, FNBSF reported total assets of \$307 million and total deposits of \$246 million. The Bank's primary business focus is small business and commercial real estate lending. The breakdown of the Bank's \$181 million loan portfolio, which represents 59 percent of total assets, is as follows: 55 percent commercial/commercial real estate, 44 percent residential, and one percent consumer. Tier 1 Leverage Capital was \$30.4 million while the Tier 1 Leverage Capital ratio was 9.80 percent.

The Bank experienced an earnings loss in 2010 but had positive earnings for 2011, 2012, and year-to-date 2013. The Bank has focused more attention on strengthening the existing loan portfolio rather than originating new loans. The Bank has also operated under an Order to Cease and Desist dated June 29, 2010 (Order), previously entered into with the Comptroller of the Currency that includes requirements for the Bank to reduce credit risk and problem assets among other areas of focus. Despite the concerted effort to maintain compliance with the Order, FNBSF has managed to address the community credit needs in its AA and provide services. We considered these challenges when evaluating FNBSF's CRA performance. No legal or other financial circumstances impede the Bank's ability to help meet the credit needs in its AA. Competition is strong in the AA with 69 financial institutions representing local, regional, and multi-regional banks. Out of the 69 banks, FNBSF ranks 44th in deposit market share at 0.25 percent based on Market Share Reports published by the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2013. The Bank's CRA performance was rated "Outstanding" at its last CRA examination, dated November 15, 2010.

Description of Assessment Area(s)

FNBSF's assessment includes all of Miami-Dade County that is also Metropolitan Division (MD) 33124. The Bank's assessment area does not arbitrarily exclude low- or moderate-income geographies. According to the 2000 Census, the Miami-Dade MD consisted of 347 geographies distributed as follows: 27 (eight percent) low-income, 99 (29 percent) moderate-income, 114 (33 percent) middle-income, 104 (29 percent) upper-income, and 3 (one percent) no income data. The majority of the low- and moderate-income geographies are located within the City of Miami. The total population is approximately 2.5 million. Between the 2000 and 2010 Census, the population increased 10.8 percent with the continued influx of immigrants from Latin America and the Caribbean, and the relocation from northern cities in the United States.

According to the 2010 Census, the Miami-Dade MD geographies increased to 518 geographies distributed as follows: 31 (six percent) low-income, 132 (26 percent) moderate-income, 166 (32 percent) middle-income, 172 (33 percent) upper-income, and 17 (three percent) no income data.

The cost of living in the Miami-Dade MD remains high even though there are indications of improvements in unemployment, real estate foreclosures, and other economic conditions during the evaluation period. Unemployment as of December 31, 2012, was 9.1 percent and has decreased compared to 10.3 percent in 2011 and 13.6 percent in 2010. Housing costs are high

with the median sales price of a single-family home of \$214,060, according to the Miami-Dade County Department of Regulatory and Economic Resources. The high median cost makes it difficult for low-and moderate-income people to own a home in the assessment area without the help of loan subsidies. The high property tax and insurance premiums add significant cost to owning a home. The poverty level remains high at approximately 18 percent for both Census years.

Major industries include real estate development, trade business with Latin America, and tourism. According to Dunn and Bradstreet, there were 444,338 non-farm businesses in the Miami-Dade MD for 2012, which was approximately a 45 percent increase in businesses compared to the 306,262 businesses referenced in the last CRA performance Evaluation. The banking industry is very competitive in the assessment area. The Federal Deposit Insurance Corporation (FDIC) deposit data as of June 30, 2013 showed 69 institutions operating 687 banking offices in the Miami-Dade MD. FNBSF ranks forty-fourth in deposit market share at 0.25 percent.

Community credit needs in the assessment area were determined by reviewing CRA Performance Evaluations of other banks operating in the same assessment area and by conducting one community contact with a nonprofit community service organization. We determined that the most pressing credit needs in the assessment area are affordable housing and small business lending.

As with most metropolitan areas in Florida, the economy in the AA has experienced a downturn due to the national and local recession. FNBSF's ability and opportunities to lend, especially to low- and moderate-income borrowers as well as to small businesses, has been impacted by the economic downturn with increased foreclosures, bankruptcies, and declines in real estate collateral values. The entire state, and in particular Miami-Dade County, has experienced significant job losses, a volatile housing market with a record number of delinquencies, foreclosures, and bankruptcies. Major industries of tourism, real estate development, wholesale trade companies, health care, financial services, and retail services have suffered because of the downturn. Miami-Dade County has a high unemployment rate of 13.1%, declines in real estate values, and increases in residential foreclosures.

Agriculture remains a dominant factor in Homestead. Nearly half of the winter vegetables consumed in the United States are grown in tropical South Florida. Miami-Dade County's agriculture, which represents nearly \$1 billion annually in local economic impact, is located on just six percent of the county's available land. This agricultural environment creates farming jobs for the local migrant community. 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 also exists for the area. The Homestead/Miami Speedway hosts several auto racing events that bring many enthusiasts to the area.

Despite economic conditions, there were opportunities for the Bank to make community development loans and qualifying investments, as well as provide community development services in the Bank's assessment area. There are a good number of local organizations that have a primary mission 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.

Conclusions with Respect to Performance Tests

LENDING TEST

The Bank's performance under the Lending Test is rated "**Satisfactory.**" Based on a full-scope review, the Bank's performance in the AA is good.

Loan-to-Deposit Ratio

- FNBSF's quarterly average loan to deposit ratio since the last CRA examination is reasonable.

The Bank maintained an average quarterly loan-to-deposit ratio of 63.51 percent. Compared to three similarly situated institutions, the Bank was within the average loan-to-deposit range of a high of 77.20 percent and a low of 49.78 percent. Similarly situated banks were selected based on similar asset size and branches in markets common to similarly situated banks. Similarly situated banks included in our analysis were Community Bank, Executive National Bank, and First National Bank of South Miami. FNBSF's loan-to-deposit ratio is considered reasonable considering contextual factors in the Bank's assessment area related to weak economic conditions during the evaluation period that negatively affected real estate values, increased unemployment, and tightened underwriting standards in the assessment area.

Lending in Assessment Area

- A majority of the number of loans made during the evaluation period were inside the AA.

The Bank originated the majority of its commercial loans in the AA. The Bank originated or purchased 87 business loans for the evaluation period of which 61 of the 87 loans, or 70 percent were originated in the AA. The dollar volume of loans inside the AA was \$27.9 million, or 52 percent of total dollar volume of loans made during the evaluation period.

Table 1 - Lending in 1st NB South Florida AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	61	70.00	26	30.00	87	27,954	52.00	25,558	48.00	53,512

Source: Business loans from Bank reports originated or purchased during the evaluation period.

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

- The distribution of loans among businesses of different sizes exhibits an excellent penetration and exceeds the standard for satisfactory performance.

In the Bank’s Miami-Dade assessment area for the year 2011, the number and dollar of the Bank’s loans to small businesses (businesses with revenues of \$1 million or less) exceeds the percentage of small businesses in the assessment area, as depicted in the following table.

Table 2A - Borrower Distribution of Loans to Businesses Miami-Dade MD				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.18	2.25	28.57	100%
% of Bank Loans in AA by #	100	0	0.00	100%
% of Bank Loans in AA by \$	100	0	0.00	100%

Source: Loans originated and purchased from Bank reports; Dun and Bradstreet data 2011.

For 2012 through September 30, 2013, the number of the Bank’s loans to small businesses exceeds the percentage of small businesses in the assessment area, as depicted in the following table. The dollar volume of the Bank’s loans is near to the percentage of small business in the assessment area.

Table 2A - Borrower Distribution of Loans to Businesses in Miami-Dade MD				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.89	2.76	26.35	100%
% of Bank Loans in AA by #	73.81	26.19	0.00	100%
% of Bank Loans in AA by \$	54.00	46.00	0.00	100%

Source: Loans originated and purchased from Bank reports; Dun and Bradstreet data 2013.

Geographic Distribution of Loans

- The geographic distribution of loans indicates a reasonable dispersion meeting the standards for satisfactory performance.

For 2011, the percentage of loans to businesses originated in low-income geographies exceeded the percentages of businesses in those tracts. The percentage in moderate-income tracts was near the percentage of businesses in those tracts, as shown in the following table. There were no unexplained conspicuous gaps in lending. Census tracts in the AAs with no loan penetration are due to FNBSF’s limited number of branch offices. This limitation prevents the Bank from penetrating all areas in the AA.

Table 3A - Geographic Distribution of Loans to Businesses in in Miami-Dade MD								
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
Businesses	3.98	5.26	19.56	15.79	32.27	42.11	43.51	36.84

Source: Loans originated and purchased from Bank reports; Dun and Bradstreet 2011. No revenue information for 0.59 percent

As reflected in the following table for 2012 through September 30, 2013, the percentage of FNBSF’s loan originations in low-income geographies exceeds the percentage of businesses located in such geographies. In moderate-income geographies, the percentage of FNBSF’s loans is near the percentage of businesses located in such geographies. There were no unexplained conspicuous gaps in lending. Census tracts in the AAs with no loan penetration are due to FNBSF’s limited number of branch offices. This limitation prevents the Bank from penetrating all areas in the AA.

Table 3A - Geographic Distribution of Loans to Businesses in Miami-Dade MD								
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
	3.10	19.05	22.28	16.67	27.62	11.90	45.47	50.00

Source: Business loans originated and purchased from Bank reports; Dunn and Bradstreet 2013. No revenue information for 1.53 percent

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

The Bank's performance under the Community Development Test is rated **"Satisfactory."** FNBSF demonstrated an adequate responsiveness to the Community Development needs of the AA through Community Development (CD) lending, investments, and services.

Number and Amount of Community Development Loans

During the evaluation period, the Bank extended five qualified community development purpose loans totaling \$1.7 million. Two of the CD loans totaled \$925 thousand and supported affordable housing to low- and moderate-income people. Three CD loans totaling \$872 thousand provided financing to nonprofit organizations that offer services to low- and moderate-income people.

Number and Amount of Qualified Investments

During the evaluation period, the Bank made 49 investments totaling \$67,851 to organizations that support services to low- and moderate-income people. There were 48 monetary donations totaling \$37,851 and one land donation of \$30,000.

Extent to Which the Bank Provides Community Development Services

FNBSF management and staff provided financial assistance to 10 organizations that provide services qualifying under the community development definition. Examples of organizations include:

The Everglades Community Association/Rural Neighborhoods - a nonprofit organization whose primary mission is to supply affordable rental housing for low-income persons (farm workers). They have provided nearly 600 homes in the Bank's AA.

Florida City/Homestead Chamber of Commerce – promotes small business and non-profit organizations in the community.

Homestead Soup Kitchen – provides hot meals to about 250 men, women, and children.

Mujeres Unidas En Justicia Education (MUJER) - a nonprofit organization that provides shelter and counseling primarily to migrant farm labor women and children who are victims of domestic violence and abuse.

Homestead Food Pantry – provides three days of groceries to about 500 families weekly.

Coalition of Florida Workers Organization- provides aid to migrant workers in the form of education, financial literacy, and awareness for personal protection.

FNBSF also serves as an administrator for the Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP). The Bank administers and monitors three affordable housing projects through the AHP. The AHP facilitates affordable housing construction and the rehabilitation or development of affordable housing. As an FHLB member, the Bank submits applications for the AHP funds each year on behalf of housing projects needing financial assistance.

Responsiveness to Community Development Needs

The volume and responsiveness of FNBSF to the CD needs of the AA is adequate. The Bank is aware of affordable housing needs, small business needs, and the need for services to low- and moderate-income people in the AA. FNBSF supports the needs of its large agricultural community. Delivery systems are limited to the southern parts of Miami-Dade County but reasonable considering the location and limited number of branches, the large number of competitors in the market, the size and capacity of the Bank. The Bank has seven branches. Two branches are located in moderate-income census tracts. One branch is located outside the Homestead Air Reserve Base that is located in a census tract that received no income designation. The Bank also has a branch in the Tamiami Airport area that also has no income designation. The Bank operates 11 automated teller machines (ATM) located at various branch locations. The Bank also offers VISA ATM debit cards as a means of access to checking and savings accounts and a MasterCard debit card to access home equity lines of credit.

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.