



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

March 14, 2011

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hawaii National Bank  
Charter Number: 14911

45 North King Street  
Honolulu, HI 96817

Office of the Comptroller of the Currency  
San Francisco Field Office  
One Front Street, Suite 1000  
San Francisco, CA 94111

**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 COMMUNITY REINVESTMENT ACT (CRA) RATING:  
This institution is rated Satisfactory.**

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

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

Hawaii National Bank (HNB) has an overall satisfactory record of meeting community credit needs. This is based on the following:

- The bank has a reasonable loan-to-deposit ratio that averaged 66% during the evaluation period.
- The bank's record of lending in its assessment area (AA) meets the standard for satisfactory performance. A majority of the bank's loans were originated within its defined AA.
- The distribution of loans reflects poor penetration among individuals of different income levels and businesses of different sizes. However nearly 50% of the bank's business loans were for \$100,000 or less, indicating responsiveness to the needs of the businesses in the area. The high cost of housing, coupled with the below average median incomes, makes home ownership and affordable home mortgages very difficult for low- and moderate-income borrowers.
- The bank's geographic distribution of loans reflects excellent dispersion throughout its AAs.
- The bank's community development performance demonstrates satisfactory responsiveness to the community development needs of its AA.
- There were no public complaints about the bank's CRA performance.

## **Scope of Examination**

This Performance Evaluation assesses the bank's performance from January 1, 2007 through March 11, 2011. Home Mortgage Disclosure Act (HMDA) reportable lending activity, from January 1, 2007 through February 28, 2011, was evaluated. We considered all Community Development Loans, Investment Test, and Service Test information from January 1, 2008 through March 11, 2011. Home purchase, home refinance, small business, and community development loans were reviewed in conjunction with the Lending Test. There was no data integrity review conducted prior to this evaluation. We analyzed a random selection of business loans, including both commercial and commercial real estate loans, and all residential real estate loans for the lending test. We reviewed all of the bank's community development investments, loans, and services to ensure they met the definition for community development.

## Description of Institution

HNB is a wholly owned subsidiary of Hawaii National Bancshares, Inc. The bank opened on September 19, 1960, and is headquartered in downtown Honolulu, Hawaii.

As of December 31, 2010, HNB had total assets of \$582 million and equity capital of \$51 million. The bank has not engaged in any merger activity during the assessment period. As of December 31, 2010, net loans represented 55% of total assets. HNB's commercial loans totaled \$223 million or 68% of total loans. Residential loans totaled \$97 million or 30% of total loans.

The bank's primary focus is on small business customers and, to a lesser extent, on individuals for home loans and consumer credit within the bank's AA. Most of the bank's customers are small family enterprises and closely-held businesses. HNB, one of the smaller commercial banks in the state of Hawaii, was compared to Finance Factors Limited, the one institution that is of similar size. The bank has 2.11% market share of the deposits for its AA. HNB has 13 convenient branch locations on the islands of Oahu, Maui, and Hawaii.

The mission of HNB is to be a strong and profitable financial institution, offering a broad range of products and services for commercial and retail accounts. The bank will continue to build its reputation as an independent community-oriented bank. It will enhance its efforts to provide knowledgeable, friendly, and well-trained staff, prompt and efficient service, and its special expertise in lending to closely-held and family-owned businesses.

HNB is affiliated through common ownership, as defined in 12 U.S.C. § 371c, with various business entities of the Luke family who own more than 90% of the holding company, Hawaii National Bancshares, Inc.

There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of the community. The bank's CRA performance was previously evaluated on December 1, 2008 and found to be satisfactory.

**Table 1**

<b>HAWAII NATIONAL BANK LOAN PORTFOLIO COMPOSITION</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Commercial	222,745	68
Residential Real Estate	97,010	30
Consumer	7,381	2
Farm & Other	316	< 1
<b>Total Loans</b>	<b>327,452</b>	<b>100</b>

*Call Report as of 12/31/2010*

***Please refer to the bank's CRA public file for more information about the institution.***

## Description of Assessment Areas (AAs)

Management and the Board have designated three AAs in Hawaii. The Oahu AA is comprised of part of the Honolulu Metropolitan Statistical Area (MSA). The other two AAs are selected census tracts on the islands of Maui and Hawaii. These two AAs are combined for purposes of this analysis since the two islands contain a smaller portion of the state's population and neither is located in a MSA. We performed a full-scope review of the Oahu AA because it represents HNB's major market, as well as a limited-scope review of the Maui-Hilo (Hawaii) AA. The AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

In conjunction with this CRA examination, we conducted a community contact interview. Community contacts are interviewed to learn about credit opportunities within the community and how well financial institutions address the credit and service needs of the community. The contact was an Executive Director of a not-for-profit organization that implements homeownership, financial education, and asset building programs to build, strengthen, and sustain low- and moderate-income communities with a particular focus on Native Hawaiians. The contact felt there is a need for local banks to provide more homebuyer education for home purchases by low- and moderate-income people.

### Oahu AA

The Oahu AA consists of 140 census tracts in Honolulu County, which were determined by the 2000 U.S. Census. Honolulu County is located on the island of Oahu. The island of Oahu has the majority of the state's population and is the site of state government. Oahu also generates most of the state's tourism trade.

The following table highlights the demographic composition of the bank's Oahu AA.

**Table 2**

<b>OAHU AA COMPOSITION</b>						
<b>INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES</b>						
<b>Income of Census Tract</b>	<b># and % of Census Tracts</b>		<b># and % of Businesses</b>		<b># and % of Families</b>	
Low Income	6	4.29%	1,963	4.89%	2,979	2.45%
Moderate Income	46	32.86%	14,892	37.10%	38,543	31.74%
Middle Income	42	30.00%	13,615	33.92%	36,167	29.78%
Upper Income	44	31.43%	9,219	22.97%	43,762	36.03%
N/A	2	1.43%	446	1.11%	0	0.00%
<b>Total:</b>	140	100.00%	40,135	100.00%	121,451	100.00%

*Source: 2010 Dun & Bradstreet*

The total population of the AA is 507,675. The weighted average Department of Housing and Urban Development (HUD) updated MSA median family income is \$81,700, and the weighted average of median housing is \$276,114.

According to Moody's Analytics, dated December 2010, Honolulu's recovery has lost its edge over the rest of the United States (U.S.), as growth in tourism has failed to spread.

Although leisure/hospitality payrolls continue to bulk up, the private sector has lost jobs on net over the last six months. Healthcare and retail have been the largest drags on employment in the second half of this year. Public sector hiring has been strong in the last few months, but payroll volatility and persistent budget difficulties underscore the state government's fiscal fragility. Tourist arrivals and expenditure are increasing, but at a slowing pace. Without support from the federal homebuyer tax credit, both single-family home and condo sales are now declining on a year-ago basis. The unemployment rate has crept up over the last few months, but at 5.5%, it is lower than those in 95% of the nation's metropolitan areas. Major employers include Schofield Barracks, Pearl Harbor Naval Complex, Marine Corps Base Hawaii Kaneohe Bay, Fort Shafter, University of Hawaii, Hickam AFB, and Hilton Hotels Corporation.

Honolulu's tourism is headed for a period of slower growth next year. The industry outperformed expectations in 2010, rebounding rapidly from the recession even while the U.S. economy struggled to gain traction. This leaves little room for further growth without the support of a self-sustaining expansion in the U.S. mainland, where the bulk of Honolulu's visitors originate. The nation's sluggish labor market recovery and a protracted consumer deleveraging process are expected to weigh on discretionary spending, making last year's pace of tourism growth in Honolulu unlikely to persist. In the immediate term, visitor arrivals and expenditure could even decline slightly. Scheduled air capacity for the first quarters of 2011, suggests that there will be fewer arrivals than in either of the previous two quarters, on a seasonally adjusted basis. As a consequence, Honolulu's leisure and hospitality industries may no longer be the engines of job growth that they were in 2010.

Honolulu's recovery is expected to decelerate in the first half of 2011 as the boost from tourism fades. Later in the year, it is expected to begin to strengthen as the housing market recovery takes hold, construction picks up, and U.S. mainland conditions improve sufficiently to drive growth in tourism again. Still, the recovery is not expected to regain its lead over the rest of the nation. Longer term, Honolulu's geographic isolation, high costs, and dependence on tourism are expected to limit job and income growth, making the metro area a below-average performer.

The five largest employment sectors in the Honolulu MSA employ 73.3% of all employees, both military and civilian: Government (22.6%), Leisure and Hospitality Services (13.9%), Professional and Business Services (13.2%), Education and Health Services (13.4%), and Retail trade (10.2%).

According to the 2010 Business Geodemographic Data, there are 40,135 businesses that operate within this AA. Of these, approximately 74% have reported annual revenues of \$1 million or less, and 76% employ fewer than ten people.

Competition in the area is strong with 12 banks operating within the Honolulu MSA. HNB ranks 6<sup>th</sup> in deposit market share with 2.11%. The four largest banks hold 89.63% of the deposit market share. Other area banks include First Hawaiian Bank, Bank of Hawaii, American Savings Bank, FSB, and Central Pacific Bank. Competition in the Maui-Hilo (Hawaii) AA is strong as well, with eight banks operating within this AA. HNB ranks 8<sup>th</sup> in deposit share with 0.99%. The four largest banks hold 92.34% of the

deposit market share. Other area banks include First Hawaiian Bank, Bank of Hawaii, American Savings Bank, FSB, and Central Pacific Bank.

***Please refer to the public file for additional information.***

## Conclusions with Respect to Performance Tests

Based on a full scope review, the bank's residential real estate and small business performance in the AA is overall satisfactory. Conclusions to support this rating are based on the following:

### LENDING TEST

#### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio demonstrates a willingness to lend. The level of lending is reasonable given the bank's size, area credit needs, and the competitive banking market. We analyzed the bank's quarterly LTD ratio from October 1, 2008, through December 31, 2010. During this period, the LTD ratio ranged from a low of 61% to a high of 78%, with a quarterly average of 66%. We compared the bank's average ratio to that of one peer bank that operated in the same AA. The peer bank's quarterly LTD ratio, over the same time period, averaged 82%. While the bank's average ratio was lower than the peer bank average, it meets the standard for satisfactory performance.

#### Lending in Assessment Area

The bank's record of lending in the AA meets the standard for satisfactory performance.

**Table 3**

Hawaii National Bank Lending in AA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans (Sample)	15	75	5	25	6,686,550	44	8,350,000	56
Residential Real Estate (Actual)	200	68	94	32	68,254,000	71	27,253,000	29

*Source: Sample of 20 business loans originated from January 1, 2009 to March 11, 2011, and all HMDA reported loans from January 1, 2009 through February 28, 2011.*

A majority of the bank's loans and other lending-related activities are made within the bank's designated AA. We sampled 20 business loans since the last CRA examination. Of the 20 sampled loans, the bank originated 15 loans, or 75% of the number of loans and 44% by dollar volume of the loans, to borrowers within their AA. Although the dollar volume is less than half of the total dollar volume, the bank explained that most of the

large dollar commercial projects in Oahu are just outside of the bank's AA due to the limited amount of open space to build within their AA.

We also reviewed the bank's HMDA reported information for the years of 2009, 2010, and thru February 28, 2011. The bank originated 200 loans, or 68% of the number of loans to borrowers, within their AA. Based on the dollar volume of the loans, the inside ratio was 71%.

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

The distribution of loans reflects poor penetration among individuals of different income levels and businesses of different sizes.

### **Business Loans – Oahu AA**

The bank's distribution of loans to businesses of different sizes, given the demographics of the AAs, reflects poor penetration among businesses of different sizes.

**Table 4**

<b>Oahu AA</b>				
<b>Income Distribution of Loans to Businesses</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74	5	21	100
% of Bank Loans in AA by #	30	55	15	100
% of Bank Loans in AA by \$	16	82	2	100

*Demographic Data Source: 2010 Business Geodemographic Data.*

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the Oahu MSA AA is 74%. Based on our sample of 20 loans within the AA, the bank originated 30% of their loans by number and 16% by dollar volume to these businesses.

While these percentages indicate the bank's efforts to lend to businesses with revenues of less than or equal to \$1,000,000 are significantly below the area demographics, nearly 50% of the bank's business loans were for \$100,000 or less, indicating responsiveness to the needs of the businesses in the area.

The distribution of business loans by percentage of number of loans originated to businesses with revenues of less than or equal to \$1,000,000 within the Maui-Hilo AA is not consistent with the lending in the Oahu AA. Our sample indicates excellent penetration in the limited scope AA.

### **Residential Real Estate Loans – Oahu AA**

The distribution of home loans to low- and moderate-income borrowers reflects poor penetration. Table 5 shows the distribution of home loan products among borrowers of different income levels based on the 2000 US Census, as compared to the percent of families in each income category. It shows that for home purchase loans, the bank made 9.68% to low-income borrowers, compared to the 20.55% of low-income families

in the AA. The table also shows that no home improvement loans were made to low-income borrowers. However, only two home improvement loans were made by the bank within the AA during the evaluation period. The table also shows that for home refinance loans, the bank made 2.34% to low-income borrowers.

The bank made 9.68% of their home purchase, 50% of their home improvement loans, and 14.84% of their home refinance loans to moderate-income borrowers, compared to 17.93% moderate-income families in the AA.

The cost of housing in the Oahu AA continues to be one of the highest in the United States and the supply remains limited. The high cost of housing, coupled with the below average median incomes, makes home ownership and affordable home mortgages very difficult for low- and moderate-income borrowers.

**Table 5**

Oahu AA Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	20.55	9.68	17.93	9.68	20.73	22.58	40.78	58.06
Home Improvement	20.55	0.00	17.93	50.00	20.73	50.00	40.78	0.00
Home Refinance	20.55	2.34	17.93	14.84	20.73	21.88	40.78	60.94

*Demographic Data Source: 2000 US Census*

The distribution of loans by percentage of number of loans originated to low- and moderate- income borrowers within the Maui-Hilo AA is consistent with the lending in the Oahu AA.

### **Geographic Distribution of Loans**

The bank's geographic distribution of residential real estate loans reflects excellent dispersion throughout the AAs. The bank was not able to penetrate all census tracts within their AAs. However, there were no conspicuous gaps in the bank's distribution of loans.

### **Business Loans – Oahu AA**

As shown in the table below, the bank's distribution of business loans, by percentage of number of loans originated, in the low-income geographies was 15%, exceeding area demographics of 5%. Also, the bank's distribution of business loans, by percentage of number of loans originated, in the moderate-income geographies was 55%, exceeding area demographics of 37%.

**Table 6**

Oahu AA Geographic Distribution of Loans to Businesses								
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
Business Loans	5	15	37	55	34	20	23	10

*Demographic Data Source: 2007 Business Geodemographic Data*

The distribution of business loans, by percentage of number of loans originated, in the low- and moderate-income geographies within the Maui-Hilo AA is consistent with the lending in the Oahu AA.

### Residential Real Estate Loans – Oahu AA

As shown in the table below, the bank’s distribution of residential real estate loans, by percentage of home purchase loans originated, in low-income geographies was 2.57%, exceeding the area demographics of 0.71% of owner-occupied housing. And, the bank’s distribution of residential real estate loans, by percentage of number of loans originated, in the moderate-income geographies was 38.46%, also exceeding the area demographics of 20.71%.

The bank did not originate any home improvement loans in low-income geographies. However, the bank’s distribution of loans originated in moderate-income geographies was 50%, exceeding the area demographics of 20.71%.

For home refinance loans, the bank’s distribution, by percentage of loans originated, in the low-income geographies was 0.73%, exceeding the area demographics of 0.71%. The bank’s distribution of refinance loans, by percentage of number of loans originated, in the moderate-income geographies was 21.17%, also exceeding the area demographics of 20.71%.

**Table 7**

Oahu AA Geographic Distribution of Residential Real Estate Loans								
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	0.71	2.57	20.71	38.46	32.24	33.33	46.35	25.64
Home Improvement	0.71	0.00	20.71	50.00	32.24	0.00	46.35	50.00
Home Refinance	0.71	0.73	20.71	21.17	32.24	26.28	46.35	51.82

*Demographic Data Source: 2000 US Census*

The distribution of loans, by percentage of number of loans originated, in the low- and moderate-income geographies within the Maui-Hilo AA is not consistent with the lending in the Oahu AA. However, the volume and number of loans is very low, and therefore it is difficult to draw a conclusion from the available data.

### **Responses to Complaints**

There have been no consumer complaints relating to the bank's Community Reinvestment Act performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's overall performance under the Community Development Test is rated Satisfactory. The community development needs and opportunities of the AA include affordable housing for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing small businesses as defined by the regulation, and activities that revitalize or stabilize low- and moderate-income geographies. HNB has demonstrated responsiveness to the community development needs of its AA.

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

Qualifying community development (CD) loans are loans that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, HNB originated 14 community development loans, totaling over \$9.3 million. This represents 18% of tier one capital. All loans are very responsive to the identified needs in the community. Examples of loans for qualifying community development organizations are described below.

- The bank participated in various loan funds through the Hawaii Community Reinvestment Corporation (HCRC). This non-profit organization's primary purpose is to improve the quality and availability of affordable housing in the state of Hawaii. With participation from eight major financial institutions in the state, the HCRC provides financing opportunities to developers, investors, and owners of multi-family projects that serve low- and moderate-income households. The HCRC is dedicated to the creation and preservation of affordable housing, as well as the facilitation of community and economic development. The HCRC is a designated Community Development Financial Institution (CDFI) and Community Development Entity (CDE). The bank made three loans, totaling \$2 million, during the evaluation period.
- Two loans, totaling \$2.8 million, were made by the bank to fund an infrastructure project to provide telecommunication lines in underserved tracts and communities throughout the Hawaiian Islands.

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

The number and amount of qualified investments are satisfactory. During the evaluation period, HNB had five Community Development Credit Union deposits totaling \$500M. HNB also had \$107M in qualifying donations during the period. The Community Development Credit Union deposits and donations are described below.

- **Community Development Credit Union**  
Throughout the evaluation period, the bank made five \$100M deposits in a low-income designated federal credit union. The credit union primarily lends in low- and moderate-income areas and to low- and moderate-income persons.

- **Donations**

Cash donations of over \$106M were made to various organizations during this evaluation period, of which \$67M was to United Way. This organization targets low- and moderate-income people in Hawaii.

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

HNB's record of providing community development (CD) services is satisfactory. HNB's performance in providing CD services in the AA is reasonable. Bank employees have donated a good amount of service time through their involvement in providing technical assistance in financial matters to various community organizations and programs within the AA. For example, an officer serves as a member of the Small Business Administration Advisory Counsel which provides counsel to small businesses, minority businesses, and start-up businesses. Another example is a director who serves as a member of the Board of Directors for an organization that provides shelter for homeless individuals. In another instance, a bank officer serves as a board member for an organization that provides affordable housing for low- and moderate-income families in Hawaii.

HNB is an intrastate bank and operates 13 branch offices on three islands. HNB offers a full range of products through its full-service branch offices located on the island of Oahu. The bank has one branch located in a low-income tract and one located in a moderate-income tract. The bank operates two full-service branches on the island of Hawaii located in the communities of Hilo and Pauinako. One of these branches is located in a moderate-income tract. And the bank operates two full-service branches on the island of Maui in the communities of Kahului and Kihei.

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

The bank's overall responsiveness through CD activities, CD lending, investment, and services needs is good. This is supported by the CD services and investments originated during the period. These services and investments help stabilize and support local economies; and, help provide affordable housing to low- and moderate-income families within HNB's assessment area.

### **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.