



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 7, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Islands Community Bank, National Association
Charter Number 23982**

**2348 Boundary Street
Beaufort, SC 29902**

**Comptroller of the Currency
ADC-Carolinas (Columbia)
6100 Fairview Road Suite 1154
Charlotte, NC 28210-3293**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory. The factors and data supporting this rating are as follows:

- Island Community Bank's loan-to-deposit ratio is more than reasonable.
- A substantial majority of the bank's loans have been made within the bank's Assessment Area (AA).
- Island Community Bank's distribution of loans by borrower income level is adequate.

DESCRIPTION OF INSTITUTION

Islands Community Bank (ICB) is a \$24 million bank located in Beaufort, South Carolina. The bank operates one full service banking office in Beaufort County. The main office has one ATM and a drive-through facility. ICB is wholly owned by a single bank holding company, Islands Bancorp (IBC), also located in Beaufort, South Carolina. IBC reported total assets of \$24 million as of December 31, 2002.

ICB offers a full range of banking products and services. As of December 31, 2002, loans totaled \$19 million and deposits totaled \$19 million. Net loans represent 78.57% of total assets. The distribution of ICB's loan portfolio was as follows: 1-4 family residential properties (18%); commercial and commercial real estate (50%); construction and land development (22%); and consumer loans (10%). The bank has no agriculture related loans. As illustrated by their loan mix, ICB is primarily a commercial lender, and to a lesser extent, a home mortgage lender. As a result, our analysis of the bank's CRA performance was limited to a sample of commercial and consumer mortgage loans.

ICB's Tier One capital was \$5.07 million and their total risk based capital to risk weighted assets equals 25.91%, as of December 31, 2002. There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs within its AA. The bank opened for business on July 9, 2001 and this is ICB's first CRA examination.

DESCRIPTION OF BEAUFORT COUNTY

ICB's AA includes Beaufort County. The delineation meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The AA consists of 1 moderate (5%), 10 middle (45%), and 11 upper (50%) income Block Numbering Area's (BNA's). There are no low-income BNA's within the AA. LNB's main banking office is located in BNA 7, which is a middle-income geography.

Approximately 23,017 families reside in the AA. Of this total, 15% are classified low income, 13% are moderate-income, 19% are middle-income, and 53% are upper-income. The total population of the AA is approximately 86,425.

The overall economic condition of the AA is good. As of December 31, 2002, the unemployment rate for the county was 2.5%, which remains below the stateside average of 6.0%. The area economy is highly dependent upon military and tourism related jobs. Major employers include the three military facilities consisting of Marine Corps Recruit Depot Parris Island, Marine Corps Air Station, and the Naval Hospital Beaufort (17,000 employees). Additional major employers include the Beaufort County School District (2,055 employees), Beaufort County Memorial Hospital (1,132 employees) and Beaufort County (1,031 employees). The 2002 updated non-MSA median family income for Beaufort County is \$43,700.

Competition in the AA is strong. There are 16 financial institutions operating in the AA and include branches of several multinational and regional banks, as well as credit unions and finance companies. ICB is ranked fifteenth in deposit market share in this AA with 0.59% of the county deposit base.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our analysis included an evaluation of commercial and home mortgage loans, as these are the primary loan products based on the bank's current loan portfolio composition. In addition, small business and residential mortgage products were identified as credit needs within the community. We selected a random sample of 24 commercial loans and a random sample of 23 home mortgage related credits originated or purchased since the bank opened. Our evaluation period was July 9, 2001 through December 31, 2002. These samples were used to determine the bank's percentage of lending in their AA as well as the bank's distribution by borrower income level performance. In arriving at the overall bank rating, more weight was placed on borrower income distribution than the other three categories.

Loan-to-Deposit Ratio

ICB's quarterly average loan-to-deposit ratio since the bank opened for business is 115.57%. This ratio appears more than reasonable based on the bank's capacity to lend within its AA. There are no similarly situated institutions within the bank's AA based on the size or age of this institution for comparison purposes. However, the bank's ratio exceeds other banks of similar size throughout the nation, peer group average is 79.77% at December 31, 2002.

Lending in Assessment Area

Based on our samples, 94% of the bank's loans and 93% of the dollar volume were made within their AA. By loan product, 100% of the number and the dollar volume of the bank's home mortgage loans were originated within their AA. In terms of commercial loans, 88% of the number and 87% of the dollar volume were originated within their AA.

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

ICB's distribution of commercial loans is reasonable. The bank originated 88% of their commercial loans to small businesses (businesses with revenues of \$1 million or less). This level of performance is slightly above the AA demographic information. Small businesses represent 80% of all businesses in the AA. In addition, the majority (58%) of ICB's commercial loans were originated at amounts of \$100 thousand or less.

ICB's distribution of home mortgage loans is reasonable. The bank originated 0% and 9% of their home mortgage loans to low- and moderate-income borrowers based on the number of loans sampled, respectively. Demographic information shows that 15% of the families in the AA are low-income and 13% are moderate income. The bank's lending volume to low-income borrowers is below AA demographics, but is mitigated by the fact that the bank is less than three years old and this is not a primary product line for the institution. In addition, 65% of the low-income families within the AA live below the poverty level, which makes it difficult for them to afford and maintain a home. Also there are no low-income BNA's within the Beaufort County AA.

Geographic Distribution of Loans

We determined a geographic distribution analysis of the bank's loans would not be meaningful as the AA has no low-income BNA's and only one moderate-income BNA.

Responses to Complaints

ICB did not receive any CRA related consumer complaints during this evaluation period.

Fair Lending Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.