

# **PUBLIC DISCLOSURE**

September 23, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Northwest Florida Bank  
06120889

Fort Walton Beach, Florida

Federal Reserve Bank of Atlanta  
104 Marietta Street, N.W.  
Atlanta, Georgia 30303

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First Northwest Florida Bank prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of September 23, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

First Northwest Florida Bank was assigned a satisfactory rating based on a reasonable loan-to-deposit ratio and because the majority of the bank's loans are within its assessment area. Also, based on available resources and the demographics of the assessment area, lending activities reflect a reasonable penetration among individuals of different income levels and businesses of different sizes. The bank is in substantial compliance with all provisions of the antidiscrimination laws and regulations, including fair lending and fair housing laws.

**GENERAL INFORMATION (CONTINUED)**

The following table indicates the performance level of First Northwest Bank of Florida with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NORTHWEST FLORIDA BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio		X	
Lending in assessment area		X	
Lending to borrowers of different incomes and to businesses of different sizes		X	
Geographic distribution of loans		X	
Response to complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

First Northwest Florida Bank has one banking office located in the southern half of Okaloosa County, Florida. The bank is a wholly owned subsidiary of Emerald Coast State Bank (E.C.S.B.) Holding Company, Inc., a one-bank holding company in Mary Esther, Florida. Through common directors, the bank is an affiliate of First National Bank Northwest Florida in Panama City, Florida. Total assets reported in the June 30, 1996 Consolidated Reports of Condition and Income were \$21.5 million. No legal or financial impediments exist that would prevent the bank from meeting the credit needs of its assessment area.

First Northwest Florida Bank is a retail banking institution active primarily in residential and small business lending. The bank also offers commercial and consumer credit products. A review of lending activity since the previous examination showed that the bank originated 278 residential real estate loans, 47 commercial loans, and 31 consumer loans. The composition of the loan portfolio according to the June 30, 1996 Consolidated Reports of Condition and Income is as follows:

LOAN TYPE	PERCENTAGE
Construction and development	9%
Secured by one- to four-family dwellings	27%
Nonfarm nonresidential properties	51%
Commercial and industrial	11%
Loans to individuals	2%
Total	100%

The above table shows that nonfarm nonresidential real estate loans make up 51 percent of the bank's loan portfolio. The majority of all real estate loans originated by the bank are sold in the secondary market. The percentage of loans secured by one- to four-family dwellings would be significantly higher if the residential real estate loans sold by the bank were considered.

## **DESCRIPTION OF INSTITUTION (CONTINUED)**

The bank is very active in governmentally guaranteed, insured, or subsidized loan programs such as Veterans Administration (VA), Federal Housing Administration (FHA), and the State Housing Initiatives Partnership (SHIP) programs. The SHIP program provides mortgage financing specifically for low- and moderate-income households.

## **DESCRIPTION OF ASSESSMENT AREA: FORT WALTON BEACH, FLORIDA**

The bank's assessment area is located in the Fort Walton Beach Metropolitan Statistical Area (MSA), which is in Okaloosa County, Florida. 33 census tracts make up the Fort Walton Beach MSA; 28 of these are included in the bank's assessment area. Of the 28 census tracts in the bank's assessment area, none are low-income; 6 (21.4 percent) are moderate-income; 17 (60.7 percent) are middle-income; and 5 (17.9 percent) are upper-income. According to figures provided by the Greater Fort Walton Beach Chamber of Commerce, approximately 70 percent of the residents of Okaloosa County reside in the Fort Walton Beach community.

The local economy is considered stable and is strongly influenced by the presence of Eglin Air Force Base (AFB). Eglin AFB is the single largest employer in the county and is among the largest Air Force installations in the world, covering over 724 square miles and 86,500 square miles of water test ranges. Almost 60 percent of the local economy is related to the military.

The assessment area is surrounded by the Choctawhatchee Bay to the east, the Gulf of Mexico to the south, and Eglin AFB to the northeast. Affordable housing in Fort Walton Beach is limited because the area is built up and experiencing a significant shortage of land. Future development will take place north of the community, in the direction of Crestview, Florida, the county seat. Coastal areas of Santa Rosa and Walton counties have active residential real estate markets. These counties are located to the east and west of Okaloosa County.

## DESCRIPTION OF ASSESSMENT AREA (CONTINUED): FORT WALTON BEACH, FLORIDA

According to the 1990 census, the population of the bank's assessment area was 121,849. The following table summarizes the four income levels of families in the bank's assessment area.

INCOME LEVEL OF FAMILIES	NUMBER OF FAMILIES IN ASSESSMENT AREA	% OF FAMILIES IN ASSESSMENT AREA
Low = Less than 50% <sup>1</sup>	5,198	15.5
Moderate = 50 to 79%	6,833	20.3
Middle = 80 to 119%	7,918	23.5
Upper = 120% or more	13,683	40.7
Total	33,632	100.0

Of the 33,632 families in the assessment area, 35.8 percent are low- to moderate-income families. According to the 1990 census, the median family income of the assessment area was \$32,660, which is slightly higher than the \$32,212 median family income for the state of Florida.

Two community contacts were made in conjunction with this examination. The consensus between the individuals contacted was that a need exists in the community for affordable housing for low- and moderate-income families and for assistance to small businesses to become established and have access to working capital loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for the seven quarters ended June 30, 1996, was 63.6 percent. This ratio would be much higher if the real estate loans that the bank originates and sells in the secondary market were included. The average loan-to-deposit ratio of three other banks of similar size in the bank's assessment area was 65.3 percent for the same time period.

---

<sup>1</sup>Percentage of MSA median family income.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

**Lending in the Assessment Area**

To evaluate the bank's performance, all residential real estate loans originated in 1995 and through July 1996 were geocoded and analyzed. In addition, all commercial loans and consumer loans originated since the previous examination were geocoded and analyzed. The analysis was used to determine the percentage of loans within the assessment area, the pattern of lending to borrowers of different income levels and businesses of different sizes, and the geographic distribution of loans.

A total of 356 loans was analyzed, including 278 residential real estate, 47 commercial, and 31 consumer loans. These loans were analyzed to evaluate the bank's lending performance within its assessment area. A majority of the bank's lending activity occurs within its assessment area. 185 (66.5 percent) of the residential loans, 37 (78.7 percent) of the commercial loans, and 25 (80.6 percent) of the consumer loans were originated within the bank's assessment area.

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

The bank's lending to borrowers of various income levels, based on the residential real estate and consumer loans in the assessment area, is detailed below.

	ASSESSMENT AREA	RESIDENTIAL LOANS		CONSUMER LOANS	
FAMILY/ BORROWER LEVEL OF INCOME	% OF TOTAL FAMILIES	NUMBER	PERCENT	NUMBER	PERCENT
Low	15.5	8	4.3	6	27.3
Moderate	20.3	43	23.3	1	4.5
Middle	23.5	59	31.9	7	31.8
Upper	40.7	75	40.5	8	36.4
Total	100.0	185	100.0	22 <sup>1</sup>	100.0

<sup>1</sup>Income data was not available for three of the consumer loans secured by certificates of deposit.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes (Continued)**

The consumer loan analysis indicates that the bank has a good penetration among individuals of different income levels, especially low-income individuals. However, the results of the bank's residential lending appear less favorable. The percentage of real estate loans to low-income families is less than these families' proportion in the assessment area. Low-income families make up 15.5 percent of families, but received only 4.3 percent of the real estate loans. Contributing to the problem is the shortage of affordable housing for low-income individuals. The median housing value in the assessment area is \$73,422. With an annual income of less than \$16,000, home ownership is difficult for low-income families.

Over 46 percent of low-income families in the assessment area have incomes below the poverty level. It is often difficult for prospective borrowers whose income is in this range to find affordable housing in the assessment area. Therefore, the level of lending to low-income borrowers in the assessment area would tend to be lower than that indicated by analysis based solely on the percentage of low-income families in the assessment area. The bank participates in the SHIP program and has originated over 50 of these loans in 1996. SHIP loans are targeted specifically to low- and moderate-income individuals. Taking all these factors into account, the bank's lending to borrowers of different incomes is considered reasonable.

The analysis of commercial loans was based on gross annual revenues of the businesses. Gross revenue figures were provided for all 37 of the commercial loans made in the bank's assessment area. The analysis showed that 24 (65 percent) of the loans were to businesses that reported revenues less than \$100,000 and 7 (19 percent) were to businesses that reported revenues between \$100,000 and \$325,000. The remaining six loans, which were to businesses with revenues above \$650,000, were participations in small business loans originated by the bank's affiliate in Panama City, Florida. The analysis indicates satisfactory performance in lending to businesses of different sizes and illustrates the bank's responsiveness to identified community credit needs.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

**Geographic Distribution of Loans**

The table below shows loan originations in relation to key demographic indicators. The table summarizes the bank's lending in terms of the community's make-up and census tract characteristics. Residential lending is the strongest indicator of performance because of the bank's emphasis and volume of loans compared to other types of credit. The percentage of residential loan originations in moderate-, middle-, and upper-income census tracts reflects the proportion of owner-occupied housing located in the three census tract groupings. Commercial and consumer loan originations were included in the evaluation and were compared to the percentage of families living in moderate-, middle-, and upper-income census tracts.

CENSUS TRACT TYPE	RESIDENTIAL		PERCENTAGE OF OWNER-OCCUPIED HOUSING	COMMERCIAL		CONSUMER		PERCENTAGE OF FAMILIES IN EACH CENSUS TRACT GROUP
	#	%		#	%	#	%	
Moderate-income	28	15	11	3	8	3	12	19
Middle-income	120	65	67	31	84	14	56	60
Upper-income	37	20	22	3	8	8	32	21
Total	185	100	100	37	100	25	100	100

The bank's commercial and consumer loans are distributed among the three census tract groupings, but to a lesser extent than the residential loans. A comparison of performance for the different types of credit should take into consideration the relatively limited volume of commercial loans originated. The table shows that consumer loans are distributed more consistently with the community's census tract characteristics than commercial loans. The extent of additional census tract penetration needed for lending patterns that reflect the make-up of the community can be determined from this form of analysis. For example, the need to increase commercial loan originations in moderate-income tracts can be noted from the table. The bank's geographic distribution based on census tract characteristics meets standards for satisfactory performance.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

### **Complaints**

No complaints relating to CRA performance have been filed against the bank since the previous examination.

### **Compliance with Antidiscrimination Laws**

No violations of the substantive provisions of the antidiscrimination laws and regulations were noted. Personnel involved in the lending process have good knowledge of fair lending issues and how they relate to credit application and the evaluation process. Through periodic employee training, the bank's policy on fair treatment of all customers has been effectively communicated from senior management to all staff members.

TO THE INSTITUTION EXAMINED:

THIS COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION WAS PREPARED BY THE FEDERAL RESERVE BANK OF ATLANTA. THE FOLLOWING ACTIONS MUST BE TAKEN TO FULFILL THE CRA'S REQUIREMENTS.

- C AT A MINIMUM, PLACE THE EVALUATION IN YOUR CRA PUBLIC FILE LOCATED AT YOUR HEAD OFFICE NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THE EVALUATION.
- C PROVIDE A COPY OF THE EVALUATION TO THE PUBLIC UPON REQUEST (YOU ARE PERMITTED TO CHARGE A FEE NOT TO EXCEED THE COST OF REPRODUCTION AND MAILING IF APPLICABLE) NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THIS LETTER.

**FEDERAL RESERVE BANK OF ATLANTA**

ASSISTANT VICE PRESIDENT

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
CYNTHIA C. GOODWIN

\_\_\_\_\_  
(Title)

.....  
COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

\_\_\_\_\_  
19

TO THE FEDERAL RESERVE BANK OF ATLANTA

A COPY OF THE COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PREPARED AS OF THE CLOSE OF BUSINESS SEPTEMBER 23, 1996, BY AN EXAMINER FOR THE FEDERAL RESERVE BANK OF ATLANTA HAS BEEN RECEIVED AND WILL BE MADE AVAILABLE TO THE PUBLIC IN THE MANNER STATED IN THE LETTER WHICH ACCOMPANIED THE EVALUATION.

\_\_\_\_\_  
(Signature of Authorized Officer)

\_\_\_\_\_  
(Title)

FIRST NORTHWEST FLORIDA BANK  
\_\_\_\_\_  
(Name of Bank)

FORT WALTON BEACH, FLORIDA  
\_\_\_\_\_  
(Location)

# FEDERAL RESERVE BANK OF ATLANTA

**Cynthia C. Goodwin**  
ASSISTANT VICE PRESIDENT

Board of Directors  
First Northwest Florida Bank  
Post Office Box 3040  
Fort Walton Beach, Florida 32548

Dear Board Members:

Enclosed is the bank's Community Reinvestment Act Performance Evaluation prepared by Federal Reserve Examiner Yolanda Peters using the guidelines established by the Federal Financial Institutions Examination Council. This evaluation was prepared in accordance with the Community Reinvestment Act (CRA), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and must be made available to the public. The following actions must be taken to fulfill the CRA's requirements.

- C At a minimum, place the evaluation in your CRA public file located at your head office no later than 30 business days after receiving this letter.
- C Provide a copy of the evaluation to the public upon request (you are permitted to charge a fee not to exceed the cost of reproduction and mailing if applicable) no later than 30 business days after receiving this letter.

Please acknowledge receipt of this evaluation by signing and returning the attached blue form. The format and content of the evaluation should not be altered or abridged in any manner. You may wish to comment on this information detailing actions the bank has taken since the examination to meet its obligations under the CRA. Any written comments concerning the evaluation placed in the public file should also be forwarded to this office. If you believe any of the information included in the public evaluation is proprietary, please contact this Reserve Bank so that the appropriate action can be taken.

Our Community Affairs staff is available to assist you in determining and responding to community credit needs. Please feel free to contact Mr. Courtney Dufries at (404) 589-7226. If you have any questions concerning this report or any other compliance matter, contact Ms. Gale Williams at (404) 589-7223.

Very truly yours,

Cynthia C. Goodwin

Enclosures

## **PUBLIC DISCLOSURE**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

NAME OF BANK: FIRST NORTHWEST FLORIDA BANK

CITY AND STATE: FORT WALTON BEACH, FLORIDA

DATE OF EXAMINATION: SEPTEMBER 23, 1996

**FEDERAL RESERVE BANK OF ATLANTA**