

# PUBLIC DISCLOSURE

July 6, 1998

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Alabama  
567231

Birmingham, Alabama

Federal Reserve Bank of Atlanta  
104 Marietta Street, N.W.  
Atlanta, Georgia 30303-2713

***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.***

<b>GENERAL INFORMATION</b>
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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 Bank of Alabama prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of July 6, 1998. 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.

A substantial majority of the loans sampled are within the institution's assessment area. The bank's average loan-to-deposit ratio is reasonable given the bank's size, competition, and assessment area credit needs. The geographic distribution of loans reflects an adequate dispersion throughout the bank's assessment area. Also, considering the demographics of the assessment area and the asset size of the bank, lending activities reflect a sufficient penetration of loans to individuals of different income levels and to businesses of different sizes. No CRA-related complaints were received since the previous examination. A review of the bank's loan policy and procedures found the bank to be in compliance with the substantive provisions of antidiscrimination laws and regulations.

<b>DESCRIPTION OF INSTITUTION</b>
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Bank of Alabama is a wholly owned subsidiary of Financial Investors of the South, Incorporated, a one-bank holding company. The bank operates two offices in Jefferson County, Alabama: the Main Office in an upper-income census tract in southern Birmingham and the North Jefferson County Branch in a middle-income census tract in Fultondale, located several miles to the north of Birmingham. Total assets reported in the March 31, 1998 Consolidated Reports of Condition and Income were \$127 million and have grown approximately 19 percent since the last examination. Bank of Alabama also operates Security Mutual Financial Services, a finance company with two divisions. The finance company division has five branches in the following Alabama cities: Alexander City, Dothan, Fort Payne, Gardendale, and Talladega. The Phoenix Funding division, Birmingham, Alabama, operates in the same facility as the Main Office. Phoenix Funding originates home improvement loans and home equity loans. No legal or financial impediments exist that would prevent the bank from meeting the credit needs of its assessment area. The bank received a satisfactory CRA rating at the previous examination as of July 17, 1997.

Bank of Alabama is primarily a small business lender and one of the largest Small Business Administration (SBA) lenders in the state. Two community contacts stated that a need exists for small business loans in the assessment area. The bank offers a variety of credit products to meet the credit needs of the assessment area as listed in the bank's public file:

- Commercial Loans – including SBA
- Residential Real Estate Loans – including conventional home purchase and refinancing
- Consumer Loans – including home improvement

Bank of Alabama competes with 18 banks in Jefferson County whose total assets range from \$12 million to \$32 billion. Most of the bank's competition for loans is from the five major commercial banks in Birmingham: AmSouth, Colonial, Compass, Regions, and SouthTrust. However, Bank of Alabama can compete with these financial institutions on interest rates and fees. Therefore, competition does not hinder the bank's CRA performance.

**DESCRIPTION OF INSTITUTION (Continued)**

The composition of the loan portfolio according to the March 31, 1998 Consolidated Report of Condition is as follows:

<b>COMPOSITION OF THE LOAN PORTFOLIO</b>	
<b>LOAN TYPE</b>	<b>PERCENTAGE</b>
Construction and development	19
Secured by one- to four-family dwellings	29
Other real estate:	
Multifamily	11
Nonfarm nonresidential	10
Commercial and industrial	18
Loans to individuals	10
All other	3
<b>TOTAL</b>	<b>100%</b>

Loan reports generated by the bank were used to select the loan sample for the CRA analysis. The reports listed loans made since the previous examination. Based on data provided by the reports, it was determined that commercial and industrial loans and consumer loans represent the bank's largest volume of lending by number of loan originations. These loan types were chosen for review to evaluate the bank's efforts in meeting the credit needs of the community.

**DESCRIPTION OF ASSESSMENT AREA: JEFFERSON COUNTY AND PART OF SHELBY COUNTY, ALABAMA**

Bank of Alabama defines its assessment area as Jefferson County and ten census tracts in northern Shelby County, Alabama, which borders Jefferson County to the south. The bank does not have the resources to serve all of Shelby County; however, the northern portion was included in the assessment area because the bank's main office is in close proximity to the county. The assessment area is located inside the four-county Birmingham Metropolitan Statistical Area (MSA). One census tract in Shelby County, 311.00, was added since the last examination.

The assessment area's population was 705,206, which was 84 percent of the MSA's population and 17 percent of the state's population.<sup>1</sup> The assessment area contained 294,462 housing units with owner-occupied units representing 61 percent, rental units representing 31 percent, and vacant units representing 8 percent. The median housing age in the assessment area was 32 years compared to 35 years for the state. The median housing value was \$60,979, or 115 percent of the median housing value for the state at \$53,205. The median family income for the assessment area was \$32,908, or 115 percent of the median family income for the state at \$28,688.

The following table shows the distribution of the families in the assessment area by family income level.

<b>DISTRIBUTION OF FAMILIES IN THE ASSESSMENT AREA</b>		
<b>INCOME LEVEL</b>	<b>FAMILIES</b>	
	<b>Number</b>	<b>Percentage</b>
Low-Income	41,223	21
Moderate-Income	31,459	16
Middle-Income	39,255	21
Upper-Income	81,151	42
<b>TOTALS</b>	<b>193,088</b>	<b>100%</b>

The table shows that the highest percentage of families is upper-income, followed by low-income and middle-income families. Thus, the bank could be expected to have more loans to upper-income families.

<sup>1</sup> Unless otherwise noted, demographic information is based on 1990 Census data.

**DESCRIPTION OF ASSESSMENT AREA (Continued)**

The following table shows the number of tracts in the assessment area by income level.

<b>DISTRIBUTION OF TRACTS IN THE ASSESSMENT AREA</b>		
<b>CENSUS TRACT INCOME LEVEL</b>	<b>TRACTS</b>	
	<b>Number</b>	<b>Percentage</b>
Low-Income	18	11
Moderate-Income	34	21
Middle-Income	59	37
Upper-Income	49	31
<b>TOTALS</b>	<b>160</b>	<b>100%</b>

Most tracts are middle-income followed by upper-income. The vast majority of low- and moderate-income census tracts are located in downtown Birmingham. The middle-income census tracts are generally located in western Jefferson County, and the upper-income census tracts are generally located in eastern Jefferson County and the portion of Shelby County in the assessment area.

The following table shows the number of families of each income group and the income level of the census tracts where they reside.

<b>DISTRIBUTION OF FAMILIES BY FAMILY INCOME AND CENSUS TRACT INCOME LEVEL</b>										
<b>CENSUS TRACT INCOME LEVEL</b>	<b>FAMILY INCOME LEVEL</b>								<b>TOTAL</b>	
	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>		<b>Number</b>	<b>Percent</b>
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>		
Low	10,172	25	3,176	10	1,941	5	1,682	2	16,971	9
Moderate	13,686	33	8,866	28	7,900	20	7,270	9	37,722	19
Middle	12,793	31	13,223	42	18,146	46	27,153	33	71,315	37
Upper	4,572	11	6,194	20	11,268	29	45,046	56	67,080	35
<b>TOTALS</b>	<b>41,223</b>	<b>100%</b>	<b>31,459</b>	<b>100%</b>	<b>39,255</b>	<b>100%</b>	<b>81,151</b>	<b>100%</b>	<b>193,088</b>	<b>100%</b>

**DESCRIPTION OF ASSESSMENT AREA (Continued)**

The table shows that of the 41,223 low-income families in the assessment area, 23,858 (58 percent) live in low- and moderate-income census tracts. 17,365 low-income families live in middle- and upper-income census tracts. Since low-income families might experience difficulty in qualifying for loans, the bank's volume of lending in low- and moderate-income census tracts may be lower than expected. Also, only 28 percent of the assessment area's total families live in the low- and moderate-income census tracts. 81,151 (42 percent) of the families in the assessment area are upper-income and are the largest income group. 45,046 (56 percent) of these families live in upper-income census tracts. Most moderate-income families reside in middle-income census tracts with the smallest percentage of these families in low-income census tracts. Most middle-income families reside in middle-income census tracts with the smallest percentage of these families in low-income census tracts.

In April 1998, the unemployment rate for the Birmingham MSA was 2 percent compared with 3 percent for the state. 62 percent of the persons 16 years of age or older in the assessment area are in the labor force, which is equivalent to the state at 61 percent.

According to the U.S. Bureau of Labor Statistics, the three fastest growing industries in the Birmingham MSA by establishment employment between 1992 and 1995 were services, retail trade, and manufacturing. The number of persons in the MSA employed in the service industry increased by 14 percent, the retail trade industry increased by 11 percent, and the manufacturing industry increased by 5 percent. Also, of the 17,292 business establishments in Jefferson County, 93 percent have from 1 to 49 employees, 6 percent have from 50 to 499 employees, and 1 percent have 500 or more employees. Of the 2,171 business establishments in Shelby County, 95 percent have from 1 to 49 employees, 4 percent have from 50 to 499 employees, and 1 percent have 500 or more employees. Thus, most businesses in the assessment area are small businesses. However, many new larger employers have recently moved into the assessment area, and several current employers are expanding in size. The largest employer in the assessment area is the University of Alabama, Birmingham, Alabama, with a \$1.2 billion economic impact.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Lending in the Assessment Area

Lending in the assessment area exceeds the standards for satisfactory performance. 63 small business loans and 77 consumer loans were analyzed to determine the bank's record of lending inside its assessment area. Of the 140 loans sampled, 94 percent by number of loans and 95 percent by dollar volume were originated in the assessment area. These percentages show the bank's focus on serving the credit needs within its assessment area. The following table shows the levels of lending inside and outside the assessment area for each loan type.

<b>ANALYSIS OF LENDING IN THE ASSESSMENT AREA</b>						
<b>LOAN TYPE</b>	<b>INSIDE ASSESSMENT AREA</b>				<b>OUTSIDE ASSESSMENT AREA</b>	
	<b>Number of Loans</b>	<b>Percentage by Number</b>	<b>Dollars</b>	<b>Percentage by Dollars</b>	<b>Number of Loans</b>	<b>Percentage</b>
Small Business	60	95	5,735,716	95	3	5
Consumer	71	92	2,011,339	95	6	8
<b>Totals</b>	<b>131</b>	<b>94%</b>	<b>7,747,055</b>	<b>95%</b>	<b>9</b>	<b>6%</b>

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for the three-quarter period ending March 31, 1998, was 82 percent. Two banks in the assessment area have similar asset sizes and business strategies, and their average loan-to-deposit ratios were used as a comparison. The average loan-to-deposit ratios for these two banks were 72 percent and 93 percent, resulting in an average of 83 percent. Bank of Alabama's average loan-to-deposit ratio is equivalent to the average of these two similarly situated banks. The bank's loan-to-deposit ratio has remained relatively constant since the previous examination.

Geographic Distribution of Loans

The geographic distribution of loans meets the standards for satisfactory performance. The table on the following page shows the dispersion of loans throughout the assessment area.

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

Geographic Distribution of Loans (Continued)

<b>GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS</b>				
<b>CENSUS TRACT INCOME LEVEL</b>	<b>LOANS</b>		<b>FAMILIES</b>	
	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Low-Income	3	4	16,971	9
Moderate-Income	5	7	37,722	19
Middle-Income	34	48	71,315	37
Upper-Income	29	41	67,080	35
<b>TOTALS</b>	<b>71</b>	<b>100%</b>	<b>193,088</b>	<b>100%</b>

The geographic distribution of consumer loans in low- and moderate-income census tracts is below the demographic percentage of families in low- and moderate-income tracts; however, the geographic distribution of consumer loans in middle-income census tracts is significantly above the demographic percentage of families in middle-income tracts. The low geographic distribution in low- and moderate-income census tracts can be expected because many low- and moderate-income families reside in these tracts. In addition, 43 percent of the families in low-income tracts and 21 percent of the families in moderate-income tracts are below the poverty level. The high volume of lending in middle- and upper-income census tracts can be explained by the location of the North Jefferson County Branch and the Main Office, which are in middle- and upper-income census tracts and are contiguous to many middle- and upper-income census tracts.

<b>GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS</b>				
<b>CENSUS TRACT INCOME LEVEL</b>	<b>LOANS</b>		<b>TRACTS</b>	
	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Low-Income	2	4	18	11
Moderate-Income	5	8	34	21
Middle-Income	20	33	59	37
Upper-Income	33	55	49	31
<b>TOTALS</b>	<b>60</b>	<b>100%</b>	<b>160</b>	<b>100%</b>

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

Geographic Distribution of Loans (Continued)

Comparing the bank's small business lending to census tracts of various income levels, the percentages of loans in low-income and moderate-income tracts are low and the percentage of loans in upper-income census tracts is high. The Main Office is located in an upper-income census tract and near many other upper-income census tracts. Most low- and moderate-income census tracts are located in downtown Birmingham, and many other financial institutions are located within these tracts to serve the credit needs of businesses.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance.

A review of the bank's record of lending to borrowers of different incomes revealed that consumer lending to low-income borrowers is below the percentage of low-income families and lending to middle-income borrowers exceeds the percentage of middle-income families. The following table shows the distribution of consumer loans to borrowers of different income levels inside the assessment area. The borrower's income was not available for nine loans.

<b>DISTRIBUTION OF CONSUMER LOANS BY BORROWER INCOME LEVEL</b>			
<b>BORROWER/FAMILY INCOME LEVEL</b>	<b>LOANS</b>		<b>PERCENTAGE OF TOTAL FAMILIES</b>
	<b>Number</b>	<b>Percentage</b>	
Low-Income	8	13	21
Moderate-Income	11	18	16
Middle-Income	16	26	21
Upper-Income	27	43	42
<b>TOTALS</b>	<b>62</b>	<b>100%</b>	<b>100%</b>

As discussed previously, the levels of consumer lending to low- and moderate-income borrowers would be expected to be lower than the demographic percentages of low-income and moderate-income families. These borrowers generally experience more difficulty in qualifying for consumer loans. However, the bank's record of lending to all borrower levels, with the exception of low-income borrowers, exceeds demographic expectations. The lower level of lending to low-income borrowers may be attributed to the likely concentration of low-income families with incomes below poverty level. Also,

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

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

most middle-income borrowers reside in middle-income census tracts, which are close to the bank's offices. The bank's North Jefferson County Branch is located in a middle-income census tract, and several middle-income census tracts are near the branch. This could be a reason for the percentage of loans to middle-income borrowers exceeding the percentage of middle-income families.

The following table shows the distribution of small business loans by loan amount.

<b>SMALL BUSINESS LOAN ORIGINATIONS BY LOAN SIZE</b>				
<b>LOAN AMOUNT</b>	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollars (000s)</b>	<b>Percentage of Dollars</b>
\$100,000 or less	43	72	1,769	31
\$100,001 - \$250,000	11	18	1,864	32
\$250,001 - \$1 million	6	10	2,103	37
<b>TOTALS</b>	<b>60</b>	<b>100%</b>	<b>5,736</b>	<b>100%</b>

Most of the bank's small business loans by loan size were originated in amounts of \$100,000 or less. This reflects the willingness of the bank to extend small loans to businesses. The bank also initiates advertising that is directed towards small business lending. Two community contacts stated that the assessment area needs more small business loans, and the bank is serving this need.

A review of the bank's record of lending to businesses of different sizes revealed that of the 46 business loans where revenue was provided, 28 (61 percent) were made to small businesses with revenues of \$1 million or less.

<b>LOAN ORIGINATIONS TO BUSINESSES WITH DIFFERENT REVENUES</b>				
<b>REVENUE SIZE</b>	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollars (000s)</b>	<b>Percentage of Dollars</b>
\$100,000 or less	5	11	245	5
\$100,001 - \$250,000	9	20	1,470	30
\$250,001 - \$1 million	14	30	944	20
Greater than \$1 million	18	39	2,190	45
<b>TOTALS</b>	<b>46</b>	<b>100%</b>	<b>4,849</b>	<b>100%</b>

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

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

The table shows that 39 percent of the loans were to businesses with revenues greater than \$1 million. However, 61 percent of the loans were to businesses with revenues of \$1 million or less. This shows the willingness of the bank to serve the needs of both large and small businesses.

Complaints

No complaints relating to the bank's compliance with CRA have been received since the last examination.

Compliance with Antidiscrimination Laws

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or the use of illegal credit practices was noted during the review of bank policies and procedures. No practices have the intent or the effect of discouraging applicants for credit; however, limited violations of technical aspects of the Home Mortgage Disclosure Act were noted.