

Small Bank Performance Evaluation

Comptroller of the Currency
Administrator of National Banks

Public Disclosure

January 3, 2000

Community Reinvestment Act Performance Evaluation

**Palm Beach National Bank & Trust Company
Charter Number 16116**

**125 Worth Avenue, Suite 100
Palm Beach, Florida 33480**

Comptroller of the Currency

**South Florida Field Office
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Note: 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.

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 CRA performance of **Palm Beach National Bank and Trust Company** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **January 3, 2000**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

Institution's CRA Rating: This institution is rated "**Satisfactory.**"

Palm Beach National Bank and Trust Company's CRA performance was evaluated using the small bank performance criteria. We evaluated the bank's lending activity from January 1997 to November 1999 ("the evaluation period"). The last CRA performance evaluation, dated December 2, 1996, rated the bank's performance as "Satisfactory."

Palm Beach National Bank and Trust Company's satisfactory performance evaluation is supported by:

- A reasonable average loan-to-deposit ratio since the last CRA examination.
- A majority of the bank's loans originated in their assessment area.
- A reasonable level of lending to low- and moderate-income borrowers and in low- and moderate-income areas. Palm Beach National Bank lends to local small businesses and also provides loans guaranteed by the Small Business Administration.

Palm Beach National Bank and Trust Company has not received any complaints regarding its CRA performance since the last evaluation.

Description of Institution

The Palm Beach National Bank and Trust Company came into existence in 1990 after a change in control in a institution formerly know as Colonial National Bank. Palm Beach National Bank and Trust Company is a locally owned & managed community bank headquartered in Palm Beach, Florida. The bank is owned by Palm Beach National Holding Company, a one-bank holding company.

The main office and one branch are located in the town of Palm Beach. Six additional branches are located in Palm Beach County. One is North Palm Beach, two in Palm Beach Gardens, and one each in Lantana and Jupiter. Four of the branches have drive-up facilities. The areas surrounding each of the branches are comprised of middle- and upper-income geographies. In addition to these branches, the bank provides a mobile banking service known as "Deposit Express". Deposit Express currently operates six vans that provide daily deposit pick-up service for established customers predominantly in the eastern portion of Palm Beach County, but also in a census tract in Broward County and a census tract in Martin County.

The bank offers an array of lending & deposit products and trust services typical of a community bank. As of September 30, 1999, the bank's total assets equaled \$289 million. Their loan portfolio totaled \$217 million or 75% of total assets. Their primary lending focus is commercial & residential real estate. The portfolio consisted of 55% commercial real estate, 20% residential real estate, 17% commercial and 8% consumer.

There are no legal impediments impairing the bank's ability to meet the credit needs of the assessment area.

Description of Assessment Area

Palm Beach National Bank and Trust Company 's assessment area (AA) is comprised of the entire Metropolitan Statistical Area (MSA) of Palm Beach County and one census tract each in neighboring Broward and Martin Counties. This assessment area meets the definition of the CRA and does not reflect illegal discrimination or arbitrarily exclude low- or moderate-income geographies.

The Palm Beach County MSA is comprised of 213 census tracts (CTs). The Florida Everglades stretch into much of the county. Approximately 55% of the MSA is Everglade swamps and vacant land with nearly 30 percent of the county comprised of the Loxahatchee National Wildlife Refuge. Agricultural concerns are located in the western portion of the county.

The 1990 U.S. Census data applied a family income of \$38,507 to divide the tracts by income level. Ten (5%) of the CTs are considered low-income, 45 CTs (21%) are moderate-income, while 89 CTs (42%) and 65 CTs (31%) are designated middle- and

upper-income, respectively. Of the 250 thousand families living within the MSA, 19% are low-income, 19% moderate-income, while 23% and 39% are middle- and upper-income, respectively. Almost 9% of all households within the MSA are below the poverty level. The estimated 1999 median family income is \$55,550. The County has a large retiree population with 24% of the people over 65 years of age, while 39% of all households receive social security benefits.

The community's growth and affluence are influenced by an influx of wealthy retirees and seasonal residents. This growth has resulted in construction and service industries becoming primary businesses in the area. Tourist dollars also contribute significantly to the area. Palm Beach is considered a world famous resort area drawing domestic and foreign visitors during the "tourist season".

Businesses in the area are predominantly small with gross annual revenues of \$1 million or less. The major employer has been the space division of Pratt & Whitney although recent layoffs have shrunk the number of employees considerably. Public services including hospitals, government, and education are other large sources of employment. Community contacts conducted during our CRA examination indicated a need for affordable housing, small business financing, and consumer loans.

The bank competes locally with a host of financial institutions, including mortgage brokers, finance companies and trust organizations. Branches of multinational and regional financial institutions located within the bank's AA are considered major competitors.

The AA in Broward County consists only of one census tract in the City of Coral Springs. Based on the 1990 census, there are 4,216 housing units in this middle-income census tract with families mainly in the middle- and upper-income brackets. There are 374 low-income and 398 moderate-income families. There are 98 families below the poverty level. Businesses in the area are mostly small.

The AA in Martin County is one census tract in the Hobe Sound Division. There are 4,532 housing units in this middle-income census tract with 1,208 families in the low- to moderate-income bracket, and 1,752 families with middle- and upper-income. There are 110 families below the poverty level. Like Palm Beach County, Martin County has a large retiree population with 27% of the people over age of 65. Businesses are predominantly small. The primary credit needs for Broward and Martin County are the same as for Palm Beach County.

Conclusions with Respect to Performance Criteria

Loan to Deposit Ratio

Palm Beach National Bank's quarterly average loan to deposit ratio between January 1997 and December 1999 of 78% is considered reasonable. The ratio is in line with three similar sized institutions in the local area whose average loan to deposit ratio over the same period is 81%.

Lending in the Assessment Area

Lending activity since the last CRA examination reflects satisfactory performance in this category. A majority of loans that originated during the evaluation period are inside the assessment area. The following table shows the percentage of loans that were approved, by dollar volume and number of loans. All types of loans are included:

	Percentage of Loans inside the Assessment Area
Number of Loans	87%
\$ Amount of Loans	89%

By number, the bank originated a total of 1,277 loans, aggregating approximately \$235 million, of which 1,104 or \$210 million were to borrowers located within the assessment area. These figures were compiled using bank provided reports.

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

Loans are reasonably disbursed among borrowers of different income levels and business of different sizes. This conclusion is based on the demographics of the area surrounding the bank's branches and the business credit needs of the community.

Primary product line include housing-related loans and commercial lending. Of the 101 housing loans originated for a total of \$34 million during the evaluation period, the bank reported the following breakdown among borrowers of different income levels:

Housing-related

Borrower Income Level	% Loans	% Families
Low-income	4%	19%
Moderate-income	22%	19%
Middle-income	11%	23%
Upper income	63%	39%

This table shows that a low percentage of loans were originated to low-income borrowers while a high percentage of loans were originated to moderate-income borrowers. Contributing to the lower volume of low income of loans to low-income individuals is the fact that the bank's branches are located in and surrounded by mostly middle- and upper-income census tracts. In fact, there are only ten (10) low-income census tracts in Palm Beach County. Also, many of the low- and moderate-income individuals are retirees who traditionally do not have a great demand for credit products.

During the evaluation period, the bank originated 374, or \$117 million in commercial and commercial real estate loans. This includes 40, or \$12.8 million in loans guaranteed by the Small Business Administration (SBA). A small business is defined as having gross annual revenues of \$1 million or less. The bank reported the following breakdown of lending among businesses of different revenue size:

Business Revenue

Annual Gross Revenues of Business	Number of Loans	% of Number of Loans	Loans in \$	% of Dollar Volume of Loans
<\$1 million	164	44%	34 million	29%
>\$1 million	212	56%	83 million	71%

The bank's volume of loans to small businesses is reasonable. The bank originated 164 loans, \$34 million, or 44% of its total business loan portfolio to small businesses. Census data indicates that 90% of the businesses in the assessment area have revenues of \$1 million or less. Nearly 80% of the bank's small business loans were for amounts less than \$100 thousand. This volume of small loans and the SBA lending volumes demonstrate the bank's efforts to meet small businesses credit needs.

Geographic Distribution of Loans

The distribution of loans among census tracts of different income levels shows reasonable penetration considering the location of the bank's branches and assessment area characteristics. The following table illustrates the geographic distribution of all loans by income level of the census tract:

Income Level of Census Tract	% of Census Tracts in the AA	% of Bank Loans in the AA by #	% of Bank Loans in the AA by \$
Low	5%	3%	5%
Moderate	21%	12%	12%
Middle	42%	35%	23%
Upper	31%	50%	60%

During the evaluation period, the bank originated 29 loans, or 3% of total loans in low-income census tracts. This compares favorably with the characteristics of the AA as 5% of the census tracts are low-income. While 21% of the census tracts are moderate-income, the bank originated only 130 loans or 12% of total loans.

Again, census tract penetration is considered reasonable given the assessment area characteristics and as the bank's branches are located in and surrounded by middle- and upper-income census tracts.

Of the loan originations, 939 loans or 85% of all loans were made to borrowers located in the middle- and upper-income tracts. This corresponds with and reflects the fact that 73% of the census tracts in Palm Beach County are middle- and upper-income tracts.

Response to Complaints

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

Compliance with Anti-discrimination Laws and Regulations

For our fair lending portion of the examination, we reviewed automobile loans made in 1999 using the loan terms approach. We compared loan terms for males (control group) against loan terms of female borrowers (prohibited basis group). We noted no evidence of discrimination in the bank's lending practices. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.