



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 10, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Baldwin County
Charter Number 24220

1207 North McKenzie Street
Foley, AL 36535

Office of the Comptroller of the Currency

3838 North Causeway Boulevard
Suite 2890
Metairie, LA 70002-8105

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 CRA RATING: This institution is rated Satisfactory

Summarize the major factors supporting the institution's rating.

- Factors supporting the bank's rating should be briefly summarized in bullet format. The summary should highlight only the primary reasons for the rating. It is not necessary to address all five performance criteria in the summary.
- When evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs has been identified in the supervisory process, the conclusion must include a statement if the rating was influenced by this evidence. The conclusion should not mention any technical violations.
- This performance evaluation (PE) format is for EV purposes and does not include detailed guidance. Refer to the Small Bank Training and Tool Kit for guidance on writing the performance evaluation. The kit is available on the Compliance Policy intranet page under CRA.

SCOPE OF EXAMINATION

Write a short description of the scope of the examination. Discuss how CRA activities were reviewed (using full-scope or limited-scope reviews). At a minimum, discuss the time period covered in the review, the specific lending products reviewed, the names of (any) affiliates reviewed and their corresponding lending products, and how they were considered in the evaluation. Include a description of loan samples used in your analysis and discuss any applicable data integrity review.

DESCRIPTION OF INSTITUTION

Write a brief description of the institution's ability to meet various credit needs based on its financial condition and size, product offerings, prior performance, legal impediments and other factors. Information that may be important to consider includes relationships with a holding company or affiliates, total assets, asset/loan portfolio mix, primary business focus, branching network, and any merger or acquisition activity. Information included in the bank's Public File need not be repeated here; instead, you may refer to the Public File.

DESCRIPTION OF ASSESSMENT AREA(S)

Briefly describe the assessment area(s) under review by providing appropriate information (and any trends) on local economic conditions, including community credit needs and business opportunities identified through outreach activities. Include a discussion of the number and kinds of CRA-related community contacts that were consulted and relevant information obtained and used, if any, in the CRA evaluation.

Information included in the bank's Public File need not be repeated here; instead, you may refer to the Public File.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Discuss the institution's CRA performance. The facts and data that support your conclusions must be included in the PE. The PE should clearly demonstrate how the core performance criteria were considered in order to rate the institution. The PE should include information on qualified investments and services **only** when they help raise a bank's rating to Outstanding.

In order to make it easier for the reader to find the support for the rating, describe the bank's performance using the following headings:

Loan-to-Deposit Ratio

[Conclusion]

Lending in Assessment Area

[Conclusion]

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

[Conclusion for full-scope AA(s)]

[Conclusion for limited-scope AA(s)]

Geographic Distribution of Loans

[Conclusion for full-scope AA(s)]

[Conclusion for limited-scope AA(s)]

Qualified Investments and CD Services (Optional)

[Conclusion]

Responses to Complaints

[Conclusion]

Fair Lending or Other Illegal Credit Practices Review

Write a paragraph about the institution's record of complying with the laws relating to discrimination and other illegal credit practices inconsistent with helping to meet community credit needs using the following guidelines:

If no substantive violations are found, the PE must state: "We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs."

OR

When substantive violations involving discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs have been identified in the supervisory process and were taken into account in the CRA evaluation, state that substantive violations were found, the nature and scope of the violations, whether they caused the CRA rating to be adjusted downward, and why the rating was or was not adjusted. Identify the law(s) and regulations(s) violated, the extent of the violation(s) (e.g., widespread or limited to a particular office, division, subsidiary, or affiliate) and characterize management's response in acting upon the violation(s)



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Charter Number: 24220

1207 North McKenzie Street
Foley, AL 36535

Office of the Comptroller of the Currency

Birmingham
100 Concourse Parkway Suite 240
Birmingham, AL 35244

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 CRA RATING: This institution is rated Satisfactory.

The performance rating is supported by the following factors:

- **Loan-to-Deposit Ratio** – The bank's average quarterly loan-to-deposit ratio is reasonable and reflects a willingness to meet the credit needs of its assessment area.
- **Lending in Assessment Area (AA)** – An analysis of residential real estate loans, small business loans, and consumer loans reveals that a substantial majority of the bank's loans originated inside the AA.
- **Lending to Businesses of Different Sizes and Borrowers of Different Incomes** – The bank has a reasonable record of lending to businesses of different sizes and individuals of different income levels (including low- and moderate-income).
- **Geographic Distribution of Loans** – The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- **Response to Complaints** – The bank has not received any CRA-related complaints since its January 21, 2005 performance evaluation.

SCOPE OF EXAMINATION

First National Bank of Baldwin County's CRA performance was evaluated using Small Bank CRA evaluation procedures. The previous CRA performance evaluation was conducted as of January 21, 2005. At that time, a "Satisfactory" rating was assigned.

The scope of this evaluation included an analysis of small business loans, residential real estate loans, and consumer loans. These three loan categories represent the bank's primary loan products by number. Real estate loans secured by 1-4 family properties account for the greatest dollar volume of the bank's loan portfolio followed by small business loans, defined as commercial and industrial and non-farm/non-residential loans in original amounts of \$1 million or less. For this evaluation, residential loans, business loans, and consumer loans extended from January 1, 2010 through December 31, 2011 were analyzed. During this 24-month period, the bank originated 42 residential loans totaling \$9.3 million and 22 of these loans totaling \$4 million were analyzed for this evaluation. Also during this review period, 178 business loans totaling \$22.1 million were extended, and 30 of these loans totaling \$5.9 million were analyzed for this evaluation. In addition, 73 consumer loans totaling \$604 thousand were extended during this review period. Of these, 30 loans totaling \$334 thousand were analyzed for this evaluation. Construction loans and agricultural loans were not evaluated, as these loan categories do not represent the bank's business focus or constitute a substantial portion of the bank's loan

portfolio. The bank is not subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act.

DESCRIPTION OF INSTITUTION

The bank is a locally-owned and operated community bank with its main office located at 1207 North McKenzie Street, Foley, Alabama. The bank offers a full range of loan and deposit products, automated teller machines, drive-through facilities, and internet banking via its website: www.firstbaldwin.com.

At June 30, 2012, the bank's assets totaled \$206.4 million and net loans totaled \$145.2 million. As previously stated, the bank's primary loan products are residential real estate loans, business loans, and consumer loans that account for 42.5 percent, 26.2 percent and 11.8 percent of the number of loans, respectively. Residential loans and business loans account for 49.1 percent and 33.7 percent of the loan portfolio by dollar volume. Together, these portfolios represent over 80 percent of the loan portfolio by dollar volume. Table 1 provides details relative to the composition of the bank's loan portfolio.

Table 1: Loan Mix as of June 30, 2012

Loan	\$ (000s)	%	#	%
Construction & Land Development	19,597	13.50	146	11.54
Secured by Farmland	2,070	1.43	19	1.51
1-4 Family Residential	71,259	49.08	538	42.53
Loans for Agricultural Production	731	0.50	7	0.55
Secured by Multifamily Dwellings	1,999	1.38	33	2.61
Secured by Non-farm / Nonresidential	33,458	23.05	133	10.51
Commercial and Industrial Loans	15,399	10.61	198	15.65
Loans to Individuals	713	0.49	149	11.78
Other Loans	25	0.01	42	3.32
Less: Unearned Income	-67	-0.05	n/a	n/a
Total Loans	145,184	100.00	1,265	100.00

Source: Consolidated Report of Condition and Income and bank records

The bank supports development, economic revitalization, and growth within its AA, consistent with its size, financial capacity, and local economic conditions. However, the area's economic environment and bank's financial constraints have impacted the bank's origination of credit to individuals and businesses within its AA. Another factor that impacts the bank's ability to meet the credit needs of its AA is the highly competitive market in which it operates.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA consists of Baldwin County, Alabama, in its entirety. Baldwin County is comprised of one moderate-, ten middle-, and twelve upper-income census tracts. There are no low-income census tracts in the AA. Baldwin County is located in a Non-Metropolitan Statistical Area (Non-MSA). There are no distressed or underserved middle-income census tracts in the AA. The geography of Baldwin County covers 2,027 square miles and it is the

largest county in Alabama.

According to the 2010 U. S. Census data, the AA contains 50,195 families. Approximately 18 percent of the AA’s families are low-income, 19 percent are moderate-income, 23 percent are middle-income, and 40 percent are upper-income. Approximately 9 percent of families earn an income less than the poverty level figures.

The Department of Housing and Urban Development (HUD) determined Alabama’s Non-MSA median family income (MFI) to be \$36,638 in 2000. For 2010 and 2011, HUD estimated the MFIs to be \$47,600, and \$47,000, respectively. Table 2 provides income ranges for low-income, moderate-income, middle-income, and upper-income borrowers using the estimated MFIs. This data was used in the analysis of residential real estate lending to borrowers of different income levels.

Table 2: Median Family Incomes for the non-metropolitan areas of the State of Alabama

Year	MFI	Low-Income <50% of MFI	Moderate –Income 50% - <80% of MFI	Middle-Income 80% - <120% of MFI	Upper-Income ≥ 120% of MFI
2010	\$47,600	< \$23,800	\$23,800 - < \$38,080	\$38,080 - < \$57,120	≥ \$57,120
2011	\$47,000	< \$23,500	\$23,500 - < \$37,600	\$37,600 - < \$56,400	≥ \$56,400

Source: HUD

The following is demographic and economic information about Baldwin County.

Baldwin County, Alabama

Of the state’s 67 counties, Baldwin County remains one of the top three fastest growing. Despite the unfavorable effects the 2010 oil spill, a drop in construction, and a slow real estate market, Baldwin County remains near the top of national economic rankings for communities its size. Tourism continues to have a strong influence on the economy in addition to the effect of capital investments made by major corporations with a strong local presence such as Austal USA and ThyssenKrupp.

According to the 2010 U.S. Census, the population of Baldwin County was officially recorded at 182,265 residents. This represents a population growth of 29.8 percent since 2000. The median home cost in Baldwin County is \$147 thousand. Home appreciation over the last year has been negative 2.02 percent. Compared to the rest of the country, Baldwin County's cost of living is 2.50 percent lower than the U.S. average. The unemployment rate in Baldwin County is 7.4 percent compared to the U.S. average of 8.6 percent.

The Federal Deposit Insurance Corporation’s (FDIC) June 30, 2011 Summary of Deposits shows 21 insured financial institutions with operations in Baldwin County. These institutions include the bank and other national banks, as well as both state-member and state non-member banks. The bank holds 8.6 percent of the deposit market share in Baldwin County. Management considers the bank to be similarly situated to the following institutions operating in Baldwin County: Bryant Bank, Centennial Bank, Citizens Bank, and First Community Bank.

Community Contact

CRA evaluation procedures include contacting area leaders to discuss the needs and development of the community, as well as the involvement of local financial institutions. Contacts provided information based on their knowledge and expertise in the housing or economic sectors. A contact representing a local business and economic development organization stated that Baldwin County’s economy is consistent with the regional economic conditions. No specific unmet credit needs were brought to the attention of the examiner during the discussion and the contact indicated that area banks readily meet the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The quarterly average loan-to-deposit (LTD) ratio is reasonable and meets standards for satisfactory performance.

The quarterly average LTD ratio of 72.3 percent demonstrates the bank’s commitment to lend deposit dollars back to the community. The bank’s quarterly LTD ratio averaged 90.6 percent since January 2005, which exceeds the average quarterly ratio of 83.9 percent for four similarly-situated institutions. The bank’s quarterly LTD ratio ranged from a high of 109.3 percent as of December 31, 2007 to a low of 69.2 percent as of September 30, 2010. This variation in performance is due, in part, to a sharp decline for loan demand throughout the AA, which provided limited lending opportunities for the institution. A similar trend is noted in the average net LTD ratio for the four similarly situated banks, which ranged from a high of 92.2 percent as of December 31, 2008 to a low of 68.5 percent as of March 31, 2012.

Lending in Assessment Area

A substantial majority of loans were originated inside the AA, which meets the standards for satisfactory performance. However, this performance is not extraordinary given the size of the bank’s AA. Of the loans originated by the bank during the evaluation period, 95.1 percent by number and 94.8 percent by dollar were in the AA. As shown by Table 3, similar ratios for the individual residential real estate, commercial, and consumer portfolios occurred.

Table 3: Distribution of Residential, Commercial, and Consumer Loans Inside and Outside of the AA

Product Type or Category	Number of Loans					Dollar Volume of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$ (000)	%	\$ (000)	%	\$ (000)
Residential	21	95.45	1	4.55	22	3,885	96.52	140	3.48	4,025
Small Business	28	93.33	2	6.67	30	5,520	93.83	363	6.17	5,883
Consumer	29	96.67	1	3.33	30	300	89.82	34	10.18	334
Total	78	95.12	4	4.88	82	9,705	94.76	537	5.24	10,242

Source: Bank Records

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

The distribution of loans reflects reasonable penetration to businesses of different sizes and borrowers of different income levels and meets standards for satisfactory performance. The analysis focused on the percentage of lending by number of loans, since businesses and borrowers with lesser incomes would typically qualify for smaller loan amounts.

Small Business Loans

Table 4 illustrates the distribution of gross annual revenues of commercial loan borrowers sampled. Approximately 96 percent, by number, of the business loans were made to businesses with gross annual revenues of \$1 million or less. The bank’s lending to small businesses exceeds the percentage of businesses in the AA that reported gross annual revenues of \$1 million or less, which was 68.8 percent according to Dunn and Bradstreet’s 2011 business geo-demographic data. Additionally, a majority of the numbers of loans, 53.6 percent, were made to businesses with revenues of \$250 thousand or less. This level of lending indicates the bank is focusing on smaller business needs.

Table 4: Distribution of Sampled Small Business Loans by Gross Revenues

Business Size by Gross Revenues	Loans by Number		Loans by Dollar (000)	
	#	%	\$	%
\$100,000 and Less	9	32.14	701	12.70
\$100,001 to \$250,000	6	21.43	1575	28.52
\$250,001 to \$500,000	6	21.43	1139	20.63
\$500,001 to \$1,000,000	6	21.43	1706	30.90
Sub Total	27	96.43	5121	92.76
\$1,000,001 and Greater	0	0.00	0	0.00
Revenue Unknown	1	3.57	400	7.24%
Totals	28	100.00%	5520	100.00%

Source: Bank records

Residential Loans

Lending to low-income borrowers exceeds the percentage of low-income families in the AA. Approximately 8 percent of AA families live below the poverty level. Families living below the poverty level typically would not qualify for mortgage financing. If the number of families living below the poverty level is removed from the total number of families in the AA and from the total number of low-income families in the AA, the adjusted percentage of low-income families that may qualify for a mortgage loan reduces from 12.6 percent to 5.4 percent. Using the adjusted percentage, the bank’s lending performance would far exceed comparable demographics and reflect even stronger performance.

Lending to moderate-income borrowers is less than the percentage of moderate-income borrowers, however it is considered reasonable given the bank’s performance context. Refer to Table 5 for more details.

Table 5: Distribution of Residential Real Estate Loans based on Borrower Income

Borrower Income Level	% of Total Families	Number of Loans	Percent of Number of Loans	Dollar Volume of Loans (000s)	Percent of Dollar Volume
Low	12.58	3	14.29	149	3.82
Moderate	12.97	2	9.52	126	3.24
Middle	20.52	2	9.52	319	8.22
Upper	53.93	14	66.67	3,291	84.72

Total	100.00	21	100.00	3,885	100.00
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Source: Bank Records and U. S. Census data

Consumer Loans

Lending to low-income borrowers is less than the percentage of low-income households. Approximately 10 percent of the households in the AA live below the poverty level. Households living below the poverty level would typically have difficulty qualifying for a consumer loan. If the number of households living below the poverty level is removed from the total number of households in the AA and from the total number of low-income households in the AA, the adjusted percentage of low-income households that may qualify for a consumer loan reduces from 17.3 percent to 10 percent. Using the adjusted percentage, the bank’s lending performance would far exceed comparable demographics and reflect strong performance.

Lending to moderate-income borrowers exceeds the percentage of moderate-income households, and is consider favorable given the bank’s performance context. Refer to Table 6 for more details.

Table 6: Distribution of Consumer Loans based on Borrower Income

Borrower Income Level	% of Total Households	Number of Loans	Percent of Number of Loans	Dollar Volume of Loans (000s)	Percent of Dollar Volume
Low	19.27	4	13.79	18	5.89
Moderate	14.50	5	17.24	40	13.24
Middle	19.33	3	10.34	43	14.43
Upper	46.90	17	58.62	199	66.43
Total	100.00	29	100.00	300	100.00

Source: Bank Records and U. S. Census data

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA and meets standards for satisfactory performance. As previously noted, there are no low-income geographies in the AA.

Business Loans

The table below reveals that the bank has a favorable record of making business loans in moderate-income census tracts. As illustrated in the table below, by percent, the number and dollar volume of business loans made exceeded the percent of non-farm businesses in moderate-income geographies.

Table 7: Geographic Distribution of Small Business Loans

Income Level of Census Tracts in Assessment Area	Percent of Non-Farm Businesses in Assessment Area	Number of Loans	Percent of Number	Dollar Volume and Percent of Dollar Volume of Loans	
		#	%	\$(00	%
Moderate	1.16	1	3.57	399	7.24

Middle	39.34	17	60.71	3,139	56.86
Upper	59.50	10	35.71	1,982	35.90
Total	100.00	28	100.00	5,520	100.00

Source: Bank Records and U. S. Census data

Residential Real Estate Loans

The geographic distribution of the bank’s residential real estate loans reveals reasonable performance in moderate-income census tracts. As illustrated in the table below, by percent, the number and dollar volume of residential loans made exceeded the percent of owner-occupied housing in moderate-income geographies.

Table 8: Geographic Distribution of Residential Loans

Income Level of Census Tracts	Percent of Owner-Occupied Housing	Number of Loans	Percent of Number of Loans	Dollar Volume of Loans (000s)	Percent of Dollar Volume
Moderate	1.94	1	4.55	144	3.71
Middle	45.99	9	40.91	1,743	44.86
Upper	52.07	11	50.00	1,998	51.43
Total	100.00	21	95.45	3,885	100.00

Source: Bank Records and U. S. Census data

Consumer Loans

The geographic distribution of the bank’s consumer loans reveals reasonable performance in moderate-income census tracts. As illustrated in the table below, by percent, the number and dollar volume of consumer loans made exceeded the percent of total households in moderate-income geographies.

Table 9: Geographic Distribution of Consumer Loans

Income Level of Census Tracts	Percent of Total Households	Number of Loans	Percent of Number of Loans	Dollar Volume of Loans (000s)	Percent of Dollar Volume
Moderate	2.33	1	3.45	15	4.86
Middle	44.55	14	48.28	103	34.43
Upper	53.12	14	48.28	182	60.70
Total	100.00	29	100.00	300	100.00

Source: Bank Records and U. S. Census data

RESPONSE TO COMPLIANTS

The bank has not received any CRA-related complaints since the previous performance evaluation.

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.