



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

August 19, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Eastern National Bank  
Charter Number: 15748

799 Brickell Plaza  
Miami, FL 33131-0000

Office of the Comptroller of the Currency

SOUTH FLORIDA (MIAMI)  
9800 Northwest 41st Street Suite 120  
Miami, FL 33178

**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 Lending Test is rated: Satisfactory.**  
**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include:

- Since the last examination, the banks' average quarterly loan-to-deposit ratio is satisfactory.
- A substantial majority of loan originations are within the bank's assessment area.
- The distribution of loans among businesses of different sizes is satisfactory.
- The geographic distribution of loans reflects a satisfactory distribution given the location of the bank's branches.
- The level and responsiveness of community development lending, investments and services is good and had a positive impact on the bank's assessment area.

## **Scope of Examination**

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests. The evaluation period ranged from January 1, 2006 to August 20, 2008. The Lending Test concentrated on activity from January 1, 2006 to July 31, 2008 since 2006 lending was not considered at the last examination and current year data was only available through July 31<sup>st</sup>. The Community Development Test concentrated on activity from March 13, 2006, the date of the last examination, to August 20, 2008.

In evaluating the bank's lending performance, we reviewed loans to businesses, the bank's primary loan product. This evaluation is based on accurate data. Loan reports and community development loans, investments, and services submitted by bank management were verified to ensure accuracy and that, where applicable, they met the regulatory definition for community development.

## **Description of Institution**

Eastern National Bank (ENB) is an intrastate community bank headquartered in Miami, Florida. The bank is owned by Mercorp, N.V. (Mercorp), a Netherlands Antilles corporation. In turn, Mercorp is owned by Corpofin, C.A., which is controlled by the Venezuelan government as a consequence of the government's intervention in Corpofin. The bank has no operating subsidiaries or affiliates. It operates five branches in Miami-Dade County including two in the City of Miami, and one each in Hialeah, Coral Gables, and Kendall.

The bank offers a variety of deposit and loan products for businesses and individuals, as

described in the CRA Public File. However, the bank's primary lending strategy is loans to businesses, including international trade finance. As of June 30, 2008, total loans, which represent 73 percent of total assets, equaled \$349 million and consisted of 28 percent commercial real estate loans, 31 percent residential real estate loans (including 1 to 4 family loans and multi-family loans), 18 percent international trade finance, 13 percent construction loans, 9 percent commercial and industrial loans, and 1 percent other loans (including consumer loans).

As of June 30, 2008 total assets equaled \$481 million and Tier 1 capital \$48 million. Total deposits equaled \$382 million. It is important to note that 46 percent of the bank's deposits are from foreign customers, primarily residing in Venezuela. However, loans outside the United States represent only about 30 percent (\$105 million) of the bank's total loan portfolio, indicating that portions of domestic loans are funded with foreign deposits.

There are no legal, financial, or other factors to impede the bank's ability to meet the credit needs in its assessment area. At its last CRA examination, dated March 13, 2006, the bank was rated satisfactory.

## **Description of Assessment Area**

ENB's assessment area is comprised of all of Miami-Dade County, which is equivalent to Metropolitan Division 33124 (Miami-Miami Beach-Kendall, FL). The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

Based on the 2000 Census, the assessment area consists of 347 census tracts of which 27 (8%) are low-income, 99 (29%) are moderate-income, 114 (33%) are middle-income, and 104 (30%) are upper-income. The greatest concentration of low- and moderate-income tracts can be found in the City of Miami.

Miami-Dade County is a densely populated urban center, and according to the 2000 Census, the total population is 2.25 million, however 2006 estimates by the US Census Bureau place the total population at 2.4 million. Owner occupancy is high in the assessment area reaching 60 percent (based on 2006 estimates) as a result of the housing boom that impacted the area through 2005. In low- and moderate-income geographies, however, the level of renter occupancy is high (69% and 56%, respectively). These geographies also represent high levels of households below the poverty level (47% and 27%, respectively), indicating a need for affordable rental housing. But, the inventory of rental units declined during the housing boom as many buildings were converted to condominiums. As of June 2008, the state of Florida ranks third in the nation for the number of home foreclosures and Miami is among the cities with the highest rates, placing additional stress on the already short supply of rental housing. The need for affordable rental housing is considered critical in the assessment area.

Housing costs in Miami-Dade County continue to be high, but have declined since the beginning of 2006 as the housing boom came to an end. The National Association of Realtors estimates the median sales price of an existing single-family home in the Miami Metropolitan area to be approximately \$310,000 during the second quarter of 2008, almost the exact figure it was at the

same time in 2004. When prices are compared with the county's HUD Adjusted Median Family Income of \$49,200 for 2008 it is clear that the unsubsidized purchase of an average single-family residence would be beyond the financial means of many low-or moderate-income individuals and families even if mortgages and subsidy programs were still readily available for such buyers.

Economists have recently indicated that the economy of Florida is in recession. Economic issues have not escaped Miami-Dade County as the decline in construction and construction-related jobs, a mainstay of the local economy, have driven the unemployment rate to 5.2 percent in July 2008, compared with 3.8 percent a year earlier, indicating a need for job placement and job training programs as well as community services for low- and moderate-income persons and families. Exports and tourism continue to provide job opportunities. Based on 2008 Dunn & Bradstreet data there are approximately 346 thousand non-farm businesses in Miami-Dade County of which 65 percent are considered to be small business, with revenues of \$1 million or less. The majority (73%) of all non-farm businesses are concentrated in the County's middle- and upper-income geographies.

Banking competition within the assessment area is intense. In addition to community and mid-size banks, branches of the largest banks in the country operate in Miami-Dade County. As of June 30, 2007, the most recent date for which data is available, there were 75 deposit taking financial institutions in Miami-Dade County operating 626 branches. In terms of deposits, ENB is ranked 32nd, with a deposit market share of .41 percent. In addition to competition for deposits and loans, the level of competition in the assessment area is very high for qualified community development investments and loans.

While there had previously been a wide range of opportunities for community development lending, investments, and services throughout the bank's Miami-Dade assessment area, availability is somewhat limited at this time. The impact of the mortgage crisis has caused community development organizations to change their focus from new construction to acquiring foreclosed properties, rehabilitating them, and then making them available for rent or for sale to low- and moderate-income persons or families. Also, stabilizing neighborhoods in high foreclosure areas is a high priority with non-profits working in affordable housing. Many organizations are still working on establishing the best methods to accomplish their new goals, limiting bank opportunities to technical support, foreclosure assistance programs and donations at this time.

Mortgage-backed securities, once a common community development investment particularly for smaller institutions, are no longer desirable investments; however Miami-Dade County has a number of minority-owned financial institutions and community development financial institutions (CDFIs) in which deposits can be made. Opportunities exist to contribute to qualified non-profit organizations whose missions are focused on providing affordable housing and community services for low- and moderate-income persons, particularly in the areas of job training and job placement, as noted by a community contact made for this examination. Economic development opportunities exist in the assessment area. There is a federally designated Empowerment Zone that targets economic development with the goal of revitalizing the area by stimulating and retaining jobs. There are areas designated as Targeted Urban Areas ("TUA") that are the focus for the Urban Economic Revitalization Plan for Miami-Dade County.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank’s performance under the Lending Test is rated “Satisfactory”.

#### Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio meets the standard for satisfactory performance. ENB’s quarterly average loan-to-deposit ratio since the last CRA examination is reasonable. The bank’s ratio of 91 percent is consistent with the 89 percent quarterly average ratio for eleven similarly situated banks within ENB’s peer group and operating within its’ assessment area. ENB’s ratio is also consistent with the 90 percent average quarterly ratio for its peer group of similarly sized banks operating in the state of Florida.

#### Lending in Assessment Area

Lending in the assessment area exceeds the standard for satisfactory performance. A substantial majority of loan originations are in the bank’s assessment area. Overall, 94 percent of loans by number and 97 percent by dollar of loans originated during the evaluation period were originated in ENB’s assessment area.

<b>Table 1 - Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000 omitted)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	225	94%	15	6%	240	148,973	97%	4,458	3%	153,431

Source: Bank loan origination reports.

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

Overall, the distribution of borrowers meets the standard for satisfactory performance, given the demographics of the assessment area.

The distribution of loans to businesses of different sizes is reasonable. The level of the bank’s loans to small businesses (businesses with revenues of \$1 million or less) is lower than the level of small businesses in the assessment area. A majority (59%) of the bank’s business loans (regardless of revenue) are for amounts of \$250 thousand or less, also indicating lending to smaller size businesses.

**Table 2 – Borrower Distribution of Loans to Businesses in Assessment Area**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.74	3.72	31.55	100%
% of Bank Loans in AA by #	38.67	33.78	27.56	100%

Source: Bank loan origination reports; Dunn and Bradstreet data 2008.

### Geographic Distribution of Loans

Overall, the geographic distribution of loans throughout the assessment area meets the standard for satisfactory performance, given the distribution of the bank’s branches.

The geographic distribution of loans to businesses is reasonable. In both low- and moderate-income geographies, the percentage of the bank’s loan originations is somewhat lower than the level of businesses located there. This is reasonable given the geographic distribution of the bank’s branches. None of the bank’s branches are located in a low- or moderate-income geography.

Table 3 - Geographic Distribution of Loans to Businesses in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Loans to Businesses	4.97	3.31	22.25	17.78	32.20	29.78	40.13	48.44

Source: Bank loan origination reports; D & B data 2008.

### Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the last examination.

### COMMUNITY DEVELOPMENT TEST

The bank’s performance under the Community Development Test is rated “Satisfactory”.

The bank’s community development performance demonstrates good responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, considering the bank’s capacity and the availability of opportunities for community development in the bank’s assessment area. The greatest level of responsiveness is found in the bank’s community development loan activities where it helped to provide 25 units of rental housing affordable to low- and moderate-

income individuals and families. Affordable rental housing is a critical need in the bank's assessment area.

### **Number and Amount of Community Development Loans**

Considering the bank's capacity, ENB had an excellent level of community development loans. During the evaluation period, ENB originated five community development loans totaling \$3.4 million. Four community development loans totaling \$2.7 million, or 79 percent of all community development loan dollars, supported affordable rental housing initiatives for low-and moderate-income individuals and families in the bank's assessment area. The remaining community development loan helped to revitalize and stabilize a moderate-income geography in the bank's assessment area by financing the acquisition and rehabilitation of a boarded-up structure that will house both residential and retail tenants.

### **Number and Amount of Qualified Investments**

Considering the bank's capacity and the level of opportunities in the assessment area, ENB had a good level of qualified community development investments. In total, there are 17 qualified investments equaling \$2.5 million. Of total investments, \$1.4 million or 56 percent represent prior period investments made before this evaluation period that are still on the books of the bank. Current period investments totaled \$1.1 million (7 investments).

The majority (58%) of the bank's prior period investments are mortgage-backed securities, for which the collateral is nine mortgage loans to low- and moderate-income borrowers in the bank's assessment area. These mortgages continue to provide housing for low- and moderate-income homeowners. Prior period mortgage-backed securities total \$787,000.

Approximately 37 percent of prior period investments or \$500,000 is in an investment fund that specializes in CRA qualified investments. The fund invested the bank's money in securities backed by mortgages on two different affordable rental housing complexes in Miami-Dade County that continue to provide affordable housing in the assessment area. Remaining prior period investments are in four local community organizations that continue to operate loan funds to finance community development activities, primarily affordable housing.

During the current period, the bank increased its investment in the above mentioned investment fund by \$500,000, representing 46 percent of current period investments. These funds were used for investments in mortgages for two affordable senior citizen rental housing complexes in Miami-Dade County. Also during the current period the bank opened a new certificate of deposit for \$99,000 at a minority-owned financial institution in Miami-Dade County, and renewed it and two at other community development financial institutions (a total of five renewals) during the current period for a total of \$487,000.

## **Extent to Which the Bank Provides Community Development Services**

The bank provides an adequate level of community development services through its branches, products, and activities with local organizations that support qualified community development activities, considering the bank's size and the opportunities available in the assessment area.

Of ENB's five branches, none are located in a low-or moderate-income geography. However, the Hialeah branch is located in a middle-income geography and is easily accessible to three adjacent moderate-income geographies. Three branches, including the one in Hialeah, offer ATM services.

The bank offers a variety of consumer and commercial banking products and services as described in the CRA Public File. Of particular note is a free checking account for persons 62 or more years of age and a low-cost checking account that can be opened with no minimum balance.

In addition, a bank officer provides technical assistance to local community development organizations by serving on the Loan Committee of a certified minority small business CDFI that provides micro-loans to small businesses in Miami as well as management expertise through its' Business Assistance Center and serves on the Development Committee of a local chapter of a national organization that constructs owner-occupied housing affordable to low- and moderate-income families. Also, three officers used their financial expertise to provide the financial education segment of a new program offered to an elementary school in a low-income tract of Miami-Dade County. The officers visited the school for seven weeks and provided the students with a tour of the bank. Finally, five students from a Miami-Dade High School that primarily services low- and moderate-income families participated in a "Shadow Day" at the bank learning about financial institutions and two students from the same school have been hired as part of the Miami-Dade County Public Schools Summer Internship Program.

## **Responsiveness to Community Development Needs**

The bank's community development activities are particularly responsive to the assessment area's need for affordable housing, generally considered the most critical need in the assessment area. Community contacts consistently rank affordable housing as the most pressing need in Miami-Dade County. The need for affordable rental housing has risen significantly given the recent level of condo conversions and the current high level of foreclosures in the market, making affordable rental housing an even more significant issue. The bank's community development loans, investments, and services help to provide affordable housing alternatives to low- and moderate-income persons in the bank's assessment area.

## **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.