



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

May 4, 2015

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CBC National Bank  
Charter Number 23922

1891 South 14th Street Fernandina Beach, FL 32034

Office of the Comptroller of the Currency

8375 Dix Ellis Trail, Suite 403 Jacksonville, FL 32256-8273

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.

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

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

**The Community Development Test is rated: Outstanding.**

- CBC National Bank's (CBC) loan-to-deposit ratio is more than reasonable when compared to banks of similar size and characteristics with branches in the combined assessment areas (AAs). The loan-to-deposit ratio averaged 91.00 percent.
- A majority of the loans are outside CBC's combined AAs. Approximately 4.56 percent of the number and 4.08 percent of the dollar volume of loans were to borrowers within the combined AAs. These percentages are adversely affected because of the bank's operation of a residential mortgage banking strategy. This resulted in only 2.77 percent of the residential loans being secured by properties located within the combined AAs. However, 79.27 percent of the small business loans originated by the bank during the review period were to borrowers within the combined AAs.
- The lending performance to individuals of different income levels and to businesses of different sizes is reasonable.
- The geographic distribution of loans for Nassau County, Florida (FL), was not reviewed because the census tracts (CT) in this AA are all classified as either middle or upper--income. A review of the geographic distribution of loans for the Beaufort County, SC, AA revealed a reasonable distribution of residential and small business loans within the AA.
- CBC's community development (CD) performance demonstrates an excellent responsiveness to the needs of its AAs through CD loans, qualified investments, and CD services.

## **Scope of Examination**

This Performance Evaluation of CBC assesses the bank's record of meeting the credit needs of the communities in which it operates. We evaluated CBC under the Intermediate Small Bank performance criterion, which includes a Lending Test and a CD Test. The Lending Test evaluates a bank's record of helping to meet the credit needs of its combined AAs through its lending activities. The CD test evaluates a bank's CD lending, qualified investments, and CD services activities.

- Lending Test conclusions are based upon the lending performance of the bank's primary loan products. We evaluated residential mortgage and small business lending from January 1, 2012, through December 31, 2014, in the Lending Test. Prior to conducting this evaluation, we tested the accuracy of the bank's Home

Mortgage Disclosure Act (HMDA) data. We found the data to be substantially accurate and, therefore, used all reported HMDA data from January 1, 2012, through December 31, 2014. For the Beaufort County AA, lending data for 2012 and 2013 was evaluated using the 2010 Census and lending data for 2014 was evaluated using the revised 2010 Census data issued in 2014. For the Nassau County AA, lending data for 2012, 2013, and 2014 was evaluated using the 2010 Census because there were no changes to the county’s demographic classifications as a result of the 2010 Census changes issued in 2014.

- Conclusions regarding the CD Test are based upon investments, services, and loans conducted in CBC’s combined AAs, which meet the definition of CD. We conducted the CD Test using information from July 16, 2012, the date of the preceding evaluation, through April 30, 2015.
- Our analysis included a full-scope evaluation for each of the bank’s two AAs, Nassau County, FL AA, part of the Jacksonville, FL Metropolitan Statistical Area (MSA) and Beaufort County, SC AA, part of the Hilton Head Island–Bluffton-Beaufort, SC MSA. There are no limited scope areas. The Nassau County AA contains approximately 54.15 percent of the bank’s total loans and 58.77 percent of total deposits. The main office is located in the Nassau County, FL AA. The Beaufort County AA contains approximately 45.85 percent of the bank’s total loans and 41.23 of the total deposits.
- We performed the analysis for the Lending Test using the most recent available demographic data and performed a data integrity review to verify the accuracy of the data. We analyzed lending performance for residential mortgages using the bank’s 2012, 2013, and 2014 HMDA submission data and loans to small businesses using the bank’s records for its business loans for the full scope AAs detailed below:

<u>State/Full Scope AAs</u>	<u>Primary Loan Types</u>
Florida – Nassau County AA	Residential and Business
South Carolina – Beaufort County AA	Residential and Business

## Description of Institution

CBC, chartered in 2000, is an interstate bank located in Fernandina Beach, FL. CBC is a wholly owned subsidiary of Coastal Banking Company, Inc., (CBCI) a one- bank holding company headquartered in Beaufort, SC. CBCI reported assets of approximately \$513.3 million, as of March 31, 2015. As of March 31, 2015, CBC reported total assets of approximately \$512.7 million.

CBC operates three branch offices in the two AAs, one branch in FL and two branches in SC. The bank also operates three automated teller machines (ATMs) in the two AAs, one at each branch location. The FL ATM accepts deposits; however, the two SC ATMs do not. Both AAs consist of whole counties and census tracts (CTs) and do not arbitrarily exclude any low- or moderate-income geographies.

During the review period, CBC did not open any branches, or acquire substantially all of the assets or assume substantially all of the deposits and liabilities of any other financial institution. However, the bank closed one branch located in Meigs, Thomas County, Georgia. This branch closed on December 31, 2013.

This office assigned a “Satisfactory” rating under the Intermediate Small Bank criteria in the prior CRA Performance Evaluation dated July 16, 2012. This evaluation used lending data through December 31, 2011, as a basis for the overall rating.

CBC’s primary business is mortgage lending, and the bank offers a variety of conventional, Federal Housing Administration (FHA), Veterans Affairs (VA), and United States Department of Agriculture (USDA) mortgage products. The bank sells approximately 97.2 percent of the bank’s mortgage loan production in the secondary market. CBC also has a Commercial Lending Department that offers financing for a variety of purposes, including loans guaranteed by the Small Business Administration (SBA). See the following chart for additional information on the composition of the bank’s loan portfolio as of December 31, 2014.

<b>Loan Category</b>	<b>\$ (000s)</b>	<b>% of \$</b>
Residential Real Estate	\$255,341	69.40%
Commercial Real Estate	97,704	26.56%
Commercial	13,268	3.61%
Consumer	1,320	0.36%
Agriculture Real Estate	264	0.07%
Agriculture	4	0.00%
All Other/Political Subdivisions	0	0.00%
<b>Total</b>	<b>\$367,901</b>	<b>100.0%</b>

Source: December 31, 2014 Call Report

CBC offers a variety of loan products for individuals and businesses. The bank’s primary focus in meeting the credit needs of its AAs are small business and mortgage lending.

The bank conducts its operations through three divisions:

1. Community Banking
2. Small Business Administration (SBA) Lending
3. Mortgage Lending

The Community Banking Division is comprised of three retail banking offices that serve the bank’s AAs. These offices operate as traditional bank branches offering a full range of deposit and loan products and services for consumers and businesses, as described in the bank’s CRA Public file. A limited number of personal deposit products are also offered by the bank, via the internet, to residents of its AAs.

The SBA Division is centralized in Fernandina Beach, Florida (FL). The bank has been an active participant in the SBA Certified Lender Program (CLP) and Preferred Lender Program (PLP) since 2000. Any of the bank's three branches can originate SBA loans, but the majority of SBA lending activity comes from the six SBA loan production offices (LPOs) located in Fernandina Beach, FL, Jacksonville, FL; Vero Beach, FL; Fort Myers, FL, Tampa, FL, and Greensboro, North Carolina (NC). By CRA definition, LPOs are not bank branches; therefore, loans generated from these locations are typically outside the bank's combined AA.

The Mortgage Lending Division is divided into three segments: Retail, Wholesale, and National Retail Group. The Retail Division is further divided into the Branch Retail and "Alpharetta" Retail segments. The Branch Retail segment refers to mortgage loans sourced through the bank's three branch network. Mortgage loan officers are physically located in the branches and originate loans directly with consumers in their markets. The "Alpharetta" Retail segment is centralized in Alpharetta, Georgia, approximately 25 miles north of Atlanta, and has mortgage loan officers that also deal directly with consumers, primarily in the Southeast. This lending channel also has a LPO in Charlotte, NC. However, the location is not in either of the bank's AAs; therefore, loans originated from this office are generally outside the bank's AA.

The Wholesale Mortgage Division is a traditional wholesale mortgage operation where loans are sourced from mortgage brokers and community banks and later sold to secondary market investors. Finally, the National Retail Division sources loans from a network of LPOs located in 11 states including Arizona, Florida, Georgia, Indiana, Illinois, Maryland, Michigan, North Carolina, Ohio, Pennsylvania, and South Carolina. As with the Wholesale Division, these offices are not branches under the CRA and therefore their activities are generally not in the bank's AAs.

The National Retail Division operates primarily as a transaction based source of non-interest income for the bank. The division originates residential mortgage loans and then sells these loans on the secondary market to generate a gain on sale, and so loans funded by this division are classified as Mortgage Loans Held For Sale (MLHFS). The funding requirements for this activity are to cover the balance of MLHFS during the holding period between the date a loan is originated (funded) and the date proceeds are received from the secondary market investor to whom the loan has been sold. This holding period can range from as little as 5 days to more than 30 days, but tends to average around 20 calendar days.

Recognizing that MLHFS are transaction based balances that ultimately generate non-interest income, the bank does not match this activity to core transaction or deposit accounts. Bank management has chosen to utilize only non-core funding sources to fund MLHFS. Within the balance of MLHFS, the bank has identified three general components or characteristics, each of which is funded with a slightly different non-core funding structure.

First, there is a base line minimum level of lending activity that will continue even in the most severe scenario of rising interest rates. Second, average or typical production levels are expected given the current level of market interest rates and the current low rate environment, and a consistent level of 60 to 70 percent refinance loan volume is expected. Third, there will be volume fluctuations that occur both seasonally and at the end of each month.

During the evaluation period, the bank originated 15,302 mortgage and business loans totaling \$3.9 billion. Given the bank's branch network, branch deposits cannot support such lending volume. Branch deposits can support the level of loans maintained in the bank's loan portfolio; however, other lending is supported by sources other than branch deposits, primarily the sale of mortgage and SBA loans on the secondary market. Additional funding comes from Federal Home Loan Bank borrowings, brokered deposits, institutional deposits, and CDARS Reciprocal Deposits.

The bank's lending strategy provides the bank with a source of non-interest income to support its overall operations in light of the limited AA lending opportunities. This strategy also allows management the opportunity to provide bank customers, including low - and moderate-income borrowers and small businesses, with affordable and flexible lending products, including FHA mortgage and SBA loans.

Management's and the Board's primary focus is to provide a strong, locally-owned, independent financial institution to serve customers in Northeast Florida and Southeastern South Carolina while providing a return to shareholders. CBC provides a wide range of traditional deposit and loan products. Branches are accessible to individuals situated in the different areas of the communities served. Lobby and drive-up hours are set by location to meet customer needs. Customers may also access their accounts through the bank's Internet website at [www.cbcnationalbank.com](http://www.cbcnationalbank.com). Services include account balance inquiries, loan payments, verification of direct deposits, funds transfers, bill payment services, and ATM activity. The bank also offers a debit card that provides customers with additional access to their accounts at point of sale or ATM locations, as well as 24-hour telephone banking.

CBC has no legal or financial circumstances that could impede the bank's ability to help meet the credit needs within the combined AAs. The bank does not have any legal or financial constraints to meeting requests for credit, subject to certain legal restrictions applicable to all national banks.

## **Selection of Areas for Full-Scope Review**

In each state where the bank has an office, an AA within that state was selected for a full-scope review.

## Ratings

The bank's overall rating is a blend of the state ratings. In arriving at the overall bank rating, the state of SC carried the majority of the weight since most of the bank's lending activity was in SC, and two of the three branches are in SC. However, the majority of the bank's deposits are in the FL AA. The bank's performance in FL carried less weight in arriving at the overall bank rating.

## Conclusions with Respect to Performance Criteria

HMDA report data was available since the bank has offices located within the Jacksonville, FL and Hilton Head -Beaufort, SC MSAs. Prior to the start of this evaluation, a random sample of primary loan products was selected to verify the accuracy of the HMDA data and to evaluate CRA lending performance. Business loans were also sampled to determine the accuracy of the bank's internal records with respect to location and level of income.

The loan-to-deposit (LTD) is more than reasonable, lending in the assessment does not meet the standard for satisfactory performance, lending to borrowers of different incomes and businesses of different sizes is reasonable, the geographic distribution of loans in Nassau County, Florida (FL), was not reviewed because the census tracts (CT) in this AA are all classified as either middle or upper--income. A review of the geographic distribution of loans for the Beaufort County, SC, AA revealed a reasonable distribution of residential and small business loans within the AA.

### Loan-to-Deposit Ratio

CBC's LTD ratio is more than reasonable and exceeds the standards for satisfactory performance. The bank's quarterly LTD ratio averaged 91.00 percent since December 2011, which is higher than the average quarterly ratio of 60.39 percent for four comparator commercial banks and one savings and loan association also operating in Nassau County, FL and Beaufort County, SC. The bank's ratio ranged from a low of 78.07 (March 2013) percent to a high of 127.06 percent (December 2014).

### Lending in Assessment Area

The majority of CBC's lending is outside the combined AAs as noted below. Although the bank's overall level of lending within the combined AAs does not meet the standard for satisfactory performance for this criteria, the number and dollar amount of residential and commercial loans that were originated in the combined AAs is considered adequate and the bank is meeting the credit needs of the combined AAs.

<b>Table 1 - Lending within the Combined Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside AA		Outside AA		Total	Inside AA		Outside AA		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Residential Real Estate	414	2.77	14,525	97.23	14,939	88,520	2.54	3,396,758	97.46	3,485,278
Commercial	283	79.27	75	20.73	358	57,873	57.86	42,155	42.14	100,028
<b>Totals</b>	<b>697</b>	<b>4.56%</b>	<b>14,600</b>	<b>95.44%</b>	<b>15,297</b>	<b>\$146,393</b>	<b>4.08%</b>	<b>\$3,438,913</b>	<b>95.92%</b>	<b>\$3,585,306</b>

Source: Commercial loan and HMDA analysis.

The bank also offers several types of consumer loans and originated 295 totaling approximately \$19.0 million during the review period. Although the volume of consumer loans did not warrant inclusion in this evaluation as a reviewed product line, we noted that the majority of consumer lending is in the bank's combined AA. Of the consumer loans, 83.73 percent by number and 85.75 percent by dollar amount were in the combined AAs.

Notwithstanding that the bank's overall ratio of lending in the combined AAs is low, the bank is serving the credit needs of the combined AAs as evidenced by the LTD ratios in the two counties that comprise the combined AA. As of December 31, 2014, the LTD ratio for the Beaufort County, SC AA was 84.58 percent. The LTD for the Nassau County, FL AA was 70.14 percent.

### **Community Development Lending and Investments**

In addition to the number and dollar amounts of CD loans and investments discussed under the FL and SC rating sections, during the review period the bank made 41 CD loans totaling approximately \$54.7 million outside of the combined AAs, but in a broader statewide/regional area. The loans were originated in Florida, Georgia, North Carolina, and South Carolina. The loan proceeds were typically used to start businesses, expand businesses, renovate existing locations, and acquire new locations.

The bank invested \$550,000 in four certificates of deposit in four qualifying financial institutions. However, none were within the combined AAs nor a broader statewide or regional area. The bank also has an unfunded commitment in the amount of \$500,000 to a SBA Loan Fund to be used in either the FL or SC AA.

## **Community Contact**

During the CRA evaluation, it is customary for examiners to contact organizations within the assessment area(s) for information regarding local economic conditions and credit needs. The community contacts stated that local institutions are generally meeting the community credit needs. However, financial institutions in the local area are making fewer loans and applying stricter underwriting principles. Both counties have large retirement populations. This has resulted in the escalation of the cost of single-family housing and made affordable housing an issue in both counties. The cost of rental housing has increased, resulting in the LMI populations moving to the more rural areas of the counties. This often results in longer commutes to work in the more urban areas of the counties.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. § 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the national bank, or in any assessment area by an affiliate whose loans have been considered as part of the national bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## State Rating

### State of Florida

**CRA Rating for Florida:<sup>1</sup> Satisfactory.**

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

**The Community Development Test is rated: Outstanding.**

The performance rating is supported by the following factors:

- The distribution of loans to borrowers of different income levels within the AA within this state reflects a poor penetration.
- The distribution of loans to businesses of different sizes within this AA within this state also reflects an excellent penetration.
- The geographic distribution of loans within this AA within this state reflects a reasonable dispersion.
- The CD performance within this state demonstrates an excellent responsiveness to the needs of this AA through CD loans, qualified investments, and CD services.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN FLORIDA

For purposes of this review, CBC has one AA in FL. The AA includes all of Nassau County, FL, which is located within the Jacksonville MSA. The Nassau County AA is comprised of 12 CTs, nine middle and three upper-income. This AA does not arbitrarily exclude any low- or moderate-income geography. There are no low- or moderate-income CTs in this AA. The demographics of this AA were not changed as a result of the new census data released in 2014.

CBC operates one branch within the Nassau County AA. During this review period, no branches opened or closed within this AA. The table below highlights the demographic composition of this AA based on the 2010 Census:

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<sup>1</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

<b>Demographic and Economic Characteristics of the Nassau County Assessment Area</b>	
<b>Population</b>	<i>Nassau County, FL AA</i>
Number of Families	20,076
Number of Households	27,255
<b>Geographies</b>	
Number of Census Tracts	12
% Low Income Census Tracts	0.00%
% Moderate Income Census Tracts	0.00%
% Middle Income Census Tracts	75.00%
% Upper Income Census Tracts	25.00%
<b>Median Family Income (MFI)</b>	
2012 HUD Adjusted MFI for Jacksonville MSA	\$67,300
2013 HUD Adjusted MFI for Jacksonville MSA	\$63,200
2014 HUD Adjusted MFI for Jacksonville MSA	\$63,927
<b>Economic Indicators</b>	
December 2014 Unemployment Rate Nassau County	5.1%
2010 Median Housing Value Nassau County	\$269,145
% of Households Below Poverty Level Nassau County Florida	9.40%
% of Families Below Poverty Level Nassau County, Florida	7.08%

Source: U.S. 2010 Census, HUD, Florida Department of Labor.

The eastern portion of the Nassau County AA is predominately urban while the western portion is predominately rural. Leading industries in this AA include tourism, healthcare, light manufacturing, agriculture, timber, and education. Major employers in Nassau County include Omni Amelia Island Plantation, Wal-Mart, Baptist Medical Center, Rayonier, and the Federal Aviation Administration, as well as the city and county school systems. Competition to provide financial services within this AA remains strong. CBC's major competitors in Nassau County include nine other commercial banks and savings and loan associations, six of which are significantly larger with respect to asset size and have offices throughout the southeastern United States. However, as of June 30, 2014, CBC had the highest level of deposits of any FDIC-insured financial institution within this AA with 20.40 percent of the total deposits.

The employment situation in the county has stabilized since the financial crisis. The unemployment rate for the county (6.1 percent) is slightly higher than that for the MSA (5.1 percent) and the state (5.6 percent). However, during the recession this AA

experienced a high level of foreclosures, which continues to have a negative impact on the area as many applicants continue to have credit issues related to foreclosure.

Of the 697 residential mortgage and small business loan originated within the combined AAs, 289, 41.46 percent, were in the Nassau County AA. By comparison, \$137.1 million, 58.77 percent, of the bank's deposits are located in the Nassau County AA.

## **SCOPE OF EVALUATION IN FLORIDA**

As previously detailed, the Nassau County AA will receive a full scope review. Nassau County's lending activity represented 41.46 percent of the bank's overall residential and commercial lending activity compared to the Beaufort County AA's 58.54 percent. As of December 31, 2014, the Nassau County AA accounted for 58.75 percent of the bank's total deposits compared to the Beaufort County AA's 41.23 percent.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN FLORIDA**

### **LENDING TEST**

The bank's performance under the lending test in Florida is reasonable.

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

CBC's overall level of lending to borrowers of different incomes and to businesses of different sizes within the Nassau County AA is reasonable and meets the standards for satisfactory performance.

The bank's distribution of residential loans reflects a poor penetration among individuals of different income levels. The percentage of lending to low-income families is well below the demographic benchmark. However, this AA's family poverty rate at 7.08 percent represents a mitigating factor. Lending to moderate-income families is considered satisfactory when compared with the demographic benchmark.

<b>Borrower Income Distribution of Residential Real Estate Loans within the Nassau County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	18.62%	6.67%	18.15%	14.67%	21.57%	18.66%	41.66%	60.00%

Source: U.S. Census Data and HMDA analysis.

Lending to businesses of different sizes within this AA reflects an excellent penetration. The number of loans made to businesses with revenues less than \$1 million equals the percentage for the number of small businesses within this AA.

<b>Income Distribution of Loans to Businesses/Farms within the Nassau County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	75.57%	2.06%	22.37%	100%
% of Bank Loans in AA by #	75.37%	24.63%	00.00%	100%
% of Bank Loans in AA by \$	67.82%	32.18%	00.00%	100%

Source: Loan information; Dun and Bradstreet data.

**Geographic Distribution of Loans**

All of the CTs within this AA are classified as either middle- or upper-income. Therefore, a review CBC’s geographic distribution of loans within this AA was not performed as the results would not have been meaningful.

**Responses to Complaints**

There were no CRA-related complaints received by the bank or the OCC during the evaluation period for this AA.

## COMMUNITY DEVELOPMENT TEST

The bank’s performance under the CD test in Florida is rated Outstanding.

The bank’s CD performance reflects an excellent responsiveness to CD needs within this AA. The bank has conducted CD activities through a mix of CD loans, investments, and services. The availability of bank products has a positive impact on the overall CD rating. The branch distribution is reasonable. More detail on the level of activity within each of the three components of the CD Test is provided below, along with the regulatory definition of CD.

According to the definition found in 12 C.F.R. § 25, CD means:

- Affordable housing for low- or moderate-income individuals;
- Community services targeted to low- or moderate-income individuals;
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. § 121.301) or have gross annual revenues of \$1 million or less; or
- Activities that revitalize or stabilize:
  - low- or moderate-income geographies;
  - designated disaster areas; or
  - distressed or underserved non-metropolitan middle-income geographies.

### Number and Amount of Community Development Loans

Assessment Area	#	\$ (000)
Nassau County Assessment Area	10	\$ 3.8
<b>Totals</b>	<b>10</b>	<b>\$ 3.8</b>

The bank’s community development loans represent excellent responsiveness to community development needs. During the evaluation period, the bank originated ten community development loans within the Nassau County AA.

During the evaluation period, the bank made ten CD loans totaling \$3.8 million to four different organizations within the AA. Specifically, the bank made four CD loans totaling \$1.7 million to an entity that provides crucial programs and services to LMI individuals, such as health care, crisis counselling and a food pantry. The bank made two CD loans totaling \$1.7 million to an organization that provides programs and services that benefit children from LMI households. The bank made three additional CD loans totaling \$300 thousand to a non-profit organization involved in providing affordable housing for LMI individuals.

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

Community development investments represent adequate responsiveness to assessment area needs, given the bank's size, capacity to provide such investments, and the level of opportunities in the assessment area.

During the evaluation period, the bank made 36 investments totaling \$58,000 to 15 different organizations in the Florida assessment area. These are donations to organizations whose mission is directed primarily to assist LMI residents of the bank's AA. Important are two donations, valued at \$10,000 each, to the local boys and girls club and an organization that provides crisis assistance to low-income residents. The remaining donations were to non-profit groups that provide community services such as the local senior center that primarily caters to LMI residents, shelter for the homeless, child care, and job creation through a 5-year economic development program.

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

The extent to which the bank provides banking services and community development services is excellent given the bank's size, capacity to provide such services, and the level of opportunities in the assessment area.

Although CBC's office is not located in a low- or moderate-income geography, the bank does provide products and services that are responsive to LMI individuals and small businesses. CBC offers two types of low-cost personal checking accounts (Free Checking and Prestige Checking) with a \$100 minimum balance to open, no monthly maintenance fee, no required minimum balance, unlimited check writing, and unlimited debit card usage. The Prestige account, offered to those age 50 and above, also provides free classic checks. Likewise, CBC offers a low-cost business checking account with a \$100 minimum balance to open, no monthly maintenance fee, and the first 500 items free. The fee for items in excess of 500 is \$.30 per item. From January 1, 2012 to December 31, 2014, the bank opened 576 consumer checking accounts in Florida, of which 417, or 74 percent, were the Free or Prestige personal checking accounts. Of the total 237 business checking accounts opened, 231, or 98 percent, were the low-cost accounts.

Bank personnel engage in community development services that are responsive to community needs. During the evaluation period, bank officers and employees provided 480 CD service hours to eight different AA organizations. Specifically, bank personnel used their financial expertise by serving as Board directors and members on budget and finance committees and assisting with fundraising. Bank personnel also provided financial literacy and education training to homeless women and Habitat for Humanity clients. In addition, bank employees provided 102 community service hours to three organizations in Jacksonville, FL, which is directly below the bank's AA.

### **Responsiveness to Community Development Needs**

Based upon CBCs overall record within this AA, a rating of “Outstanding” was assigned for the Community Development Test. The rating was based upon CBC’s excellent responsiveness in the level of CD lending and services and adequate level of CD investments during the evaluation period.

## State Rating

### State of South Carolina

**CRA Rating for South Carolina:<sup>2</sup> Satisfactory.**

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

**The Community Development Test is rated: Outstanding.**

The performance rating is supported by the following factors:

- The distribution of loans to borrowers of different income levels within this AA within this state reflects a poor penetration.
- The distribution of loans to businesses of different sizes within this AA within this state also reflects an excellent penetration.
- The geographic distribution of loans within this AA within this state reflects a reasonable dispersion.
- The CD performance within this state demonstrates an excellent responsiveness to the needs of this AA through CD loans, qualified investments, and CD services.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN SOUTH CAROLINA

For purposes of this review, CBC has one AA in SC. The AA includes all of Beaufort County, which became a part of the Hilton Head Island-Bluffton-Beaufort MSA in 2014. For both the 2012/2013 and 2014 periods, the Beaufort County AA was comprised of 41 CTs. For the 2012/2013 period, the AA contained four moderate-, ten middle-, and 26 upper-income CTs. One CT was labeled "Not Applicable" and there were no low-income CTs. For the 2014 period, the AA contained one low-, ten moderate-, 12 middle-, and 17 upper-income CTs. One CT was labeled "Not Applicable." This AA meets the technical requirements of the Act, and does not arbitrarily exclude any low- or moderate-income geography.

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<sup>2</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

For purposes of this review, CBC operates two branches within the Beaufort County AA. No branches were opened within this AA during the review period. The table below highlights the demographic composition of this AA based on the 2010 Census:

<b>Demographic and Economic Characteristics of the Beaufort County Assessment Area</b>	
<b>Population</b>	<i>Beaufort County AA</i>
Number of Families	44,566
Number of Households	63,459
<b>Geographies</b>	
Number of Census Tracts	41
% Low Income Census Tracts	00.00%
% Moderate Income Census Tracts	09.76%
% Middle Income Census Tracts	24.39%
% Upper Income Census Tracts	63.41%
% Not Applicable	02.44%
<b>Median Family Income (MFI)</b>	
2012 HUD Adjusted MFI for Beaufort County AA	\$69,800
2013 HUD Adjusted MFI for Beaufort County AA	\$67,000
<b>Economic Indicators</b>	
December 2013 Unemployment Rate Beaufort County AA	5.5%
2010 Median Housing Value Beaufort County AA	\$362,267
% of Households Below Poverty Level Beaufort County AA	9.44%
% of Families Below Poverty Level Beaufort County AA	7.35%

Source: U.S. 2010 Census, HUD, South Carolina Department of Labor.

The table below highlights the demographic composition of this AA based on the revised 2010 Census issued in 2014:

<b>Demographic and Economic Characteristics of the Beaufort County Assessment Area</b>	
<b>Population</b>	<i>Beaufort County, SC AA</i>
Number of Families	44,566
Number of Households	63,459
<b>Geographies</b>	
Number of Census Tracts	41
% Low Income Census Tracts	2.44%
% Moderate Income Census Tracts	24.39%
% Middle Income Census Tracts	29.27%
% Upper Income Census Tracts	41.46%
% Not Applicable	2.44%
<b>Median Family Income (MFI)</b>	
2014 HUD Adjusted MFI for HHI-Bluffton-Beaufort MSA	\$61,904
<b>Economic Indicators</b>	
December 2014 Unemployment Rate Beaufort County	5.7%
2014 Median Housing Value Beaufort County	\$362,267
% of Households Below Poverty Level Beaufort County	9.44%
% of Families Below Poverty Level Beaufort County	7.35%

Source: U.S. 2010 Census revised in 2014, HUD, South Carolina Department of Labor.

The Beaufort County AA is a mix of urban and rural economies. Leading industries within this AA include tourism, regional medical facilities, light manufacturing, and education. Major employers in the Beaufort County AA include Sea Pines Resort, Wal-Mart, Lowes, Hargray Communications, Department of Defense, Beaufort Memorial Hospital, Tenet Physician Services, as well as the school systems within the county. Competition to provide financial services within this AA remains strong. In this AA, CBC competes against 20 other commercial banks including 14 that are significantly larger with respect to asset size and have offices throughout the southeastern United States. As of June 30, 2014, CBC had the tenth highest level of deposits of any FDIC insured financial institution within this AA with 3.20 percent of the deposits.

The employment situation in the county has stabilized since the financial crisis. The unemployment rate for the county (5.7 percent) is the same as for the MSA (5.7 percent), this is a two county MSA), and lower than rate for the state (6.7 percent). However, from 2008 – 2012, due to the recession, this AA experienced a high level of foreclosures, which continues to have a negative impact on the area as many applicants continue to have credit issues related to foreclosure.

Of the 697 residential mortgage and small business loan originated within the combined AAs, 408, 58.54 percent, were in the Beaufort County AA. By comparison, \$96.2 million, 41.23 percent, of the bank's deposits are located in the Beaufort County AA.

## **SCOPE OF EVALUATION IN SOUTH CAROLINA**

As mentioned previously, the Beaufort County AA will receive a full scope review. For both the 2012/2013 and 2014 periods, the Beaufort County AA was comprised of 41 CTs. For the 2012/2013 period, the AA contained four moderate-, ten middle-, and 26 upper-income CTs. One CT was labeled "Not Applicable" and there were no low-income CTs. For the 2014 period, the AA contained one low-, ten moderate-, 12 middle-, and 17 upper-income CTs. One CT was labeled "Not Applicable." This AA meets the technical requirements of the Act, and does not arbitrarily exclude any low- or moderate-income geography.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SOUTH CAROLINA**

### **LENDING TEST**

The bank's performance under the lending test in South Carolina is rated Satisfactory.

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

CBC's overall level of lending to borrowers of different incomes and to businesses of different sizes within this AA is reasonable and meets the standards for satisfactory performance.

For both sets of review periods, 2012/2013 and 2014, the bank's distribution of residential loans reflects a poor penetration among individuals of different income levels. The percentage of lending to low-income families is well below the demographic benchmarks for both review periods. However, this AA's family poverty rate at 7.35 percent represents a mitigating factor. Lending to moderate-income families is also lower than the demographic benchmarks for both review periods.

**Borrower Income Distribution of Residential Real Estate Loans within the Beaufort County AA based on 2010 Census for 2012 and 2013**

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential	11.22%	02.06%	13.51%	05.64%	17.79%	15.38%	57.49%	76.92%

Source: U.S. Census Data and HMDA analysis.

**Borrower Income Distribution of Residential Real Estate Loans within the Beaufort County AA based on 2010 Census as revised in 2014**

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential	18.57%	05.77%	17.60%	09.62%	20.67%	28.84%	43.17%	55.77%

Source: U.S. Census Data and HMDA analysis.

Lending to businesses of different sizes reflects an excellent penetration. For the 2012/2013 and 2014 periods, the number and dollar volume of loans made to businesses with revenues less than \$1 million is higher than the percentage for the number of small businesses within this AA. Therefore, the overall level of performance is excellent.

**Income Distribution of Loans to Businesses within the Beaufort County AA based on 2010 Census for 2012 and 2013**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.25%	3.94%	21.80%	100.00%
% of Bank Loans in AA by #	82.65%	17.35%	00.00%	100.00%
% of Bank Loans in AA by \$	88.58%	11.42%	00.00%	100.00%

Source: Loan information and Dun and Bradstreet data.

<b>Income Distribution of Loans to Businesses within the Beaufort County AA based on 2010 Census as revised in 2014</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.36%	4.42%	21.22%	100.00%
% of Bank Loans in AA by #	82.35%	17.65%	00.00%	100.00%
% of Bank Loans in AA by \$	92.11%	07.89%	00.00%	100.00%

Source: Loan information and Dun and Bradstreet data.

### Geographic Distribution of Loans

CBC’s geographic distribution of loans reflects a reasonable dispersion and meets the standards for satisfactory performance. For the 2012/2013 period, this AA contained no low-income CTs. For the 2014 period, this AA contained only one low-income CT. For the 2012/2013 period, the volume of loans originated within the moderate-income CTs is slightly lower than the percentage of owner-occupied housing units (OOHUs) within these CTs. For the 2014 period, the level of lending within the moderate-income CTs exceeds the percentage of OOHUs within these CTs.

<b>Geographic Distribution of Residential Real Estate Loans within the Beaufort County AA based on 2010 Census for 2012 and 2013</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential	00.00%	00.00%	09.88%	05.94%	15.95%	15.35%	74.17%	78.71%

Source: U.S. Census Data and HMDA Data

<b>Geographic Distribution of Residential Real Estate Loans within the Beaufort County AA based on 2010 Census as revised in 2014</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential	0.80%	00.00%	19.36%	26.32%	37.26%	50.87%	42.58%	22.81%

Source: U.S. Census Data and HMDA Data

The percentage of loans granted to businesses and farms within the moderate-income geographies also exceeds the percentage of businesses and farms within these CTs, reflecting an excellent dispersion throughout the CTs within this AA.

<b>Geographic Distribution of Loans to Businesses/Farms within the Beaufort County AA based on 2010 Census for 2012 and 2013</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans
Commercial	00.00%	00.00%	08.69%	10.20%	15.45%	24.49%	75.86%	53.31%

Source: U.S. Census Data and Loan Data

<b>Geographic Distribution of Loans to Businesses/Farms within the Beaufort County AA based on 2010 Census as revised in 2014</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans
Commercial	4.16%	00.00%	15.56%	23.13%	35.68%	41.18%	44.60%	35.29%

Source: U.S. Census Data and Loan Data

**Responses to Complaints**

There were no CRA-related complaints received by the bank or the OCC during the evaluation period for this AA.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the community development test in South Carolina is rated Outstanding.

The bank’s CD performance reflects an excellent responsiveness to CD needs within this AA. The bank has conducted CD activities through a mix of CD loans, investments, and services. The availability of bank products has a positive impact on the overall CD rating. The branch distribution is excellent, as one is located in a moderate-income CT and one is located in an upper-income CT. More detail on the level of activity within each of the three components of the CD Test is provided below, along with the regulatory definition of CD.

According to the definition found in 12 C.F.R. § 25, CD means:

- Affordable housing for low- or moderate-income individuals;
- Community services targeted to low- or moderate-income individuals;
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. § 121.301) or have gross annual revenues of \$1 million or less; or
- Activities that revitalize or stabilize:
  - low- or moderate-income geographies;
  - designated disaster areas; or
  - distressed or underserved non-metropolitan middle-income geographies.

**Number and Amount of Community Development Loans**

<b>Assessment Area</b>	<b>#</b>	<b>\$ (000)</b>
Beaufort County Assessment Area	11	\$ 2.4

The bank’s CD loans represent excellent responsiveness to community development needs. During the evaluation period, the bank originated 11 CD loans within the Beaufort County AA.

During the evaluation period, the bank made 11 CD loans totaling \$2.4 million to five different organizations within the AA. Specifically, the bank made three CD loans totaling \$1 million to an entity that provides programs and services that benefit children from LMI households. The bank made three CD loans totaling \$750 thousand to a non-profit organization involved in providing affordable housing for LMI individuals. The bank made two loans totaling \$186 thousand to an entity that provides overnight shelter and a hot meal for the homeless.

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

CBC has an adequate level of qualified investments given the bank's size, capacity, and the level of opportunities in the AA.

During the evaluation period, the bank made 32 monetary donations totaling \$64,000 to 11 organizations that help to assist low- and moderate-income individuals and families in Beaufort County. Important is an in-kind donation, valued at \$15,500, of two unimproved lots to an organization whose mission is to provide affordable housing to low- and moderate-income families. The bank made additional donations totaling \$23,800 to the same organization throughout the evaluation period. The remaining donations were to organizations that provide support to Alzheimer's caregivers and afterschool and summer camp programs to low- and moderate-income residents.

Also during the evaluation period, the bank invested \$100,000 in a SC community loan fund.

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

The extent to which the bank provides banking services and community development services is excellent given available opportunities, the bank's size, and capacity to provide such services.

CBC's Port Royal branch is located in a moderate-income CT, while the other branch is located in an upper-income CT. The bank provides products and services that are considered responsive to LMI individuals and small businesses. CBC offers two types of low-cost personal checking accounts (Free Checking and Prestige Checking) with a \$100 minimum balance to open, no monthly maintenance fee, no required minimum balance, unlimited check writing, and unlimited debit card usage. The Prestige account, offered to those age 50 and above, also provides free classic checks. Likewise, CBC offers a low-cost business checking account with a \$100 minimum balance to open, no monthly maintenance fee, and the first 500 items free. The fee for items in excess of 500 is \$.30 per item. From January 1, 2012 to December 31, 2014, the bank opened 593 consumer checking accounts in South Carolina, of which 451, or 76 percent, were the Free or Prestige personal checking accounts. Of the total 181 business checking accounts opened, 179, or 99 percent, were the low-cost accounts.

During the evaluation period, bank officers and employees engaged in community development services that are responsive to community needs. Bank personnel provided 537 community development service hours to ten different assessment area organizations. Specifically, bank personnel used their financial expertise by serving as Board directors and members on executive and finance committees. Bank personnel also provided financial literacy and education training to local Habitat for Humanity clients.

### **Responsiveness to Community Development Needs**

Based upon CBC's overall record within this AA, a rating of "Outstanding" was assigned for the Community Development Test. The rating was based upon CBC's excellent responsiveness in the level of CD lending and services and adequate level of CD investments during the evaluation period.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: (01/01/12 to 12/31/14) Community Development Test: (07/16/12 to 04/30/15)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
CBC National Bank Fernandina Beach, Florida	HMDA reportable mortgage loans Loan to small businesses	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Florida – Nassau County, Jacksonville MSA #27260	Full-Scope	
South Carolina – Beaufort County, Hilton Head Island- Bluffton-Beaufort MSA #25940	Full-Scope	

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
CBC National Bank	Satisfactory	Outstanding	Satisfactory
Florida	Satisfactory	Outstanding	Satisfactory
South Carolina	Satisfactory	Outstanding	Satisfactory