



# 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

First National Bank South  
Charter Number: 16258

423 West 12th Street  
Alma, GA 31510-0000

Office of the Comptroller of the Currency

NORTH FLORIDA (JACKSONVILLE)  
8375 Dix Ellis Trail, Suite 403  
Jacksonville, FL 32256

**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.**

- First National Bank South's (FNB South) average loan-to-deposit ratio is reasonable in comparison to similar-sized banks
- The bank makes a majority of its loans within the assessment area
- The bank's record of lending reflects a reasonable penetration among businesses of different sizes
- The bank's Community Development performance has demonstrated adequate responsiveness to the community development needs of its assessment area, considering its capacity and the needs and opportunities within these areas

## **Scope of Examination**

First National Bank South (FNB South) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, qualified investments, and community development services.

The time period for this evaluation is May 1, 2003 through June 30, 2008. The last Community Reinvestment Act (CRA) evaluation for FNB South was completed on April 7, 2003, when the bank received a "Satisfactory" rating.

The lending test for FNB South covers its performance from January 1, 2006 through June 30, 2008, as this is representative of its lending strategy since the last CRA examination. FNB South's primary loan products are business and agricultural loans. To evaluate the bank's lending performance, we selected a sample of business and agricultural loans made from 1/1/06 through 6/30/08.

## **Description of Institution**

First National Bank South (FNB South) is an intrastate bank headquartered in Alma, Georgia. As of June 30, 2008, FNB South was a \$338 million retail banking institution with tier one capital of \$31 million (T1RBC 10.96%). The bank services the credit and deposit needs of its customers from its main branch located at 423 West 12<sup>th</sup> Street in Alma, Georgia and branches at 198 West Parker Street in Baxley, Georgia; 914 South Peterson in Douglas, Georgia; and 300 N Second Street, Folkston, Georgia which is a new branch since the last CRA exam. All facilities offer full service banking including ATM services. The bank is 100% owned by First Bankshares of the South East, Inc., a one bank, \$334 million holding company located at 423 West 12<sup>th</sup> Street in Alma, Georgia. There have not been any significant changes to FNB South's corporate

structure, including merger or acquisition activities, since the last CRA examination. There are no known financial or legal impediments that would hinder the bank from meeting the credit needs of its assessment area.

FNB South offers a full range of deposit and loan products and services. The primary lending focus is business and agricultural loans. As of June 30, 2008, the bank had net loans of \$279.7 million (83.5% of total assets) and had a net loans and leases to total assets ratio of 83.52%. The following shows the composition of the loan portfolio

<b>Loan Type</b>	<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>
<b>Consumer</b>	11%	54%
<b>Residential</b>	12%	14%
<b>Business</b>	<b>54%</b>	<b>25%</b>
<b>Agricultural</b>	<b>20%</b>	6%

## **Description of Assessment Area(S)**

FNB South has two assessment areas, but being that all the counties are in non-metro areas and use the same median income as a comparator, they were combined for the analysis of this exam. FNB South designates the geographic boundaries of Bacon, Appling, and Coffee counties in Georgia as one assessment area and Charlton County in Georgia as another assessment area. The city of Alma is Bacon County’s only incorporated municipality. Appling County has three incorporated municipalities, Baxley, Graham and Surrency. Coffee County has four incorporated municipalities, Ambrose, Broxton, Douglas and Nicholls. Charlton County has two incorporated municipalities, Folkston and Homeland. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. All four counties are located in a Non-Metropolitan Statistical Area (NMSA). The AA is composed of 17 income tracts, all in middle-income census tracts.

<b>Census Tract Category</b>	<b># of Census Tracts</b>	<b>% of Total</b>
Low-Income	0	0.0%
Moderate-Income	0	0.0%
Middle-Income	17	100%
Upper-Income	0	0%
<b>Total</b>	<b>17</b>	<b>100.0%</b>

The 2008 Housing and Urban Development estimate of the NMSA median family income for Georgia was \$43,000. Based on this figure, low-income, defined as less than 50% of median family income, would be less than \$21,500. Moderate-income, more than 50% but less than 80% of median family income would range between

\$21,500 and \$34,400. Middle-income, more than 80% but less than 120% of median family income would range between \$34,400 and \$51,600, and upper-income, more than 120%, would be greater than \$51,600. Based on these estimates, 24% of the families in the AA are classified as low-, 18% moderate-, 21% middle-, and 37% upper-income. The population of the AA is 75,217 with 27,125 households. Twenty-seven percent (27%) of the households receive Social Security income and 20% are below the poverty level. There are 31,787 housing units with 75% occupied and 65% owner-occupied.

Bacon County is located in southeast Georgia approximately 30 miles north of Waycross, Georgia and 120 miles northwest of Jacksonville, Florida. The estimated 2007 population for the county was 10,507. The unemployment rate as of September 2007 was 4.7% compared to the state of Georgia's average of 4.6%. Industries providing employment include manufacturing (22%), Educational/Health and Social Services (16%), and Retail Trade (11%). The most common industries for men are construction and agriculture. The most common industries for women include healthcare and education. The agriculture in Bacon County is mostly family-owned farms (90%) averaging 202 acres.

Appling County is adjacent to and north of Bacon County. The estimated 2007 population for the county was 17,946. The unemployment rate as of September 2007 was 5.7% compared to the state of Georgia's average of 4.6%. Industries providing employment include Manufacturing (18.4%), Educational/Health and Social Services (17.9%), Construction (11.7%), and Retail trade (10.2%). The most common industries for men in Appling County are construction and agriculture. The most common industries for women in Appling County are Education and Healthcare. The agriculture in Appling County is mostly family-owned farms (89%) averaging 213 acres.

Coffee County is located adjacent to and west of Bacon County. The estimated 2007 population for the county was 40,085. The unemployment rate as of September 2007 was 5.7% compared to the state of Georgia's average of 4.6%. Industries providing employment include Manufacturing (29.0%), Retail trade (17.4%), Educational/Health and Social Services (14.0%). The most common industries for men in Coffee County are construction and agriculture. The most common industries for women in Coffee County are Health Care and Education with 24% in those fields. The agriculture in Coffee County is mostly family-owned farms (92%) averaging 273 acres.

Charlton County is located on the Florida/Georgia border and south of all the other three counties. The 2007 Census Estimate shows a population of 10,609. The unemployment rate as of September 2007 was 4.9% compared to the state of Georgia's average of 4.6%. Industries providing employment include Educational/Health and Social Services (15.6%), Manufacturing (15.4%), Construction (11.1%), and Public Administration (10.1%). The most common industries for men in Charlton County are Construction and Public Administration with 30% working in those areas. The most common industries for women in Charlton County are Health Care, Accommodations and Educational Services with 43% working in those areas. The agriculture in Charlton County is mostly family-owned farms (82%) averaging 147 acres.

Banking competition consists of 14 financial institutions with 28 offices within the AA. There are two financial institutions and four offices in Bacon County with FNB South having 61% of the market share of deposits. For Appling County, there are five financial institutions and five offices with FNB South having 28% of the market share of deposits. Coffee County has the most competition with 10 financial institutions and 17 offices putting FNB South in fifth in regards to market share at 9%. Charlton County has two financial institutions and two offices with FNB South having 51% of the market share of deposits.

During the evaluation period, we contacted a local community organization to identify credit needs within the community. The interview noted the need for assistance to those trying to start new businesses or small business owners who desire to grow or expand. Georgia is the fourth fastest growing state and the economy is strong. Housing costs, taxes and the costs of living are all low. The economy is strong so it is a good area for economic development.

## **LENDING TEST**

### **Loan-to-Deposit Ratio – Meets the Standard for Satisfactory Performance**

FNB South's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's net loan-to-deposit ratio averaged 93.60 percent over the 21 quarters since the last CRA examination, with a quarterly low of 80.24 percent and a quarterly high of 104.35 percent.

The bank's net loan to deposit ratio compares favorably with other community banks of similar size, location and product offerings. FNB South ranks second among a total of seven similarly situated banks. The other six banks had average net loan-to-deposit ratios averaging 89.58 percent and ranging from 74.29 to 100.93 percent over the 21 quarters since the last CRA examination.

### **Lending in Assessment Area – Meets the Standard for Satisfactory Performance**

FNB South originates a majority of its loans to borrowers located within its assessment area. We took a sample of 20 agricultural and 20 business loans. From the sample we noted that a majority of the number of loans and dollar volume of agricultural loans are in the AA. The majority of the number of commercial loans is in the AA but a majority of the dollar volume is outside of the AA (61%). There were two loans made outside of the AA with very large amounts that skewed the results, but these loans were both made to areas of similar demographics as the AA. There doesn't appear to be any arbitrary exclusion of low- or moderate-income tracts. The following table details the bank's lending within the AA by number and dollar amount of loans originated during the evaluation period.

<b>Table 1 - Lending in Appling/Bacon/Charlton/Coffee AA</b>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Loans	13	65.00%	7	35.00%	20	\$8,473	50.38%	\$8,346	49.62%	\$16,819
Commercial Loans	15	75.00%	5	25.00%	20	\$3,228	38.81%	\$5,089	61.19%	\$8,317
Totals	28	70.00%	12	30.00%	40	\$11,701	46.55%	\$13,435	53.45%	\$25,136

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes – Meets the Standard for Satisfactory Performance**

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. We used a sample of 20 commercial loans originated within the loan sampling period that were in the bank's AA. Sixty percent of the bank's loans to businesses were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered reasonable compared to demographic data that shows 44% of the area's businesses are considered small businesses.

FNB South is also involved in the SBA 504 program, which uses tax dollars to assist small business owners. This program finances the purchase, renovation, and construction of owner-occupied commercial real estate and equipment for for-profit businesses involved in economic development. The 504 SBA also takes a second lien position behind the bank for all the loans involved. The bank has ten loans in the portfolio that originated since the last CRA exam totaling \$4.3 million.

<b>Table 2A - Borrower Distribution to Businesses in Appling/Bacon/Charlton/Coffee AA</b>				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	43.79%	2.83%	53.37%	100.00%
% of Bank Loans in AA by #	60.00%	0.00%	40.00%	100.00%
% of Bank Loans in AA by \$	81.59%	0.00%	18.41%	100.00%

Because we lacked revenue data on 40% of the business loans made by the bank, we also looked at the distribution of loans by loan size. We found that 90% of the business loans in our sample were loans under \$250 thousand; and the average loan amount is \$176 thousand, which provides additional support for a reasonable distribution of loans to small businesses. The charts below show the analysis.

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Appling/Bacon/Charlton/Coffee AA</b>				
Loan Size	Number of loans	Percent of Number	Dollar Volume of Loans	% of Dollars
\$0 - \$100,000	10	50.00%	\$511,822	14.54%
\$100,001 - \$250,000	8	40.00%	\$1,288,901	36.62%
\$250,001 - \$500,000	1	5.00%	\$298,932	8.49%
\$500,001 - \$1,000,000	0	0.00%	0	0.00%
\$1,000,001 - \$10,000,000	1	5.00%	\$1,419,541	40.34%
Total	20	100.00%	\$3,519,196	100.00%

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. We used a sample of 20 commercial loans originated within the loan sampling period that were in the bank’s AA. Sixty-five percent of the bank’s loans to farms were made to smaller farms. This is considered reasonable compared to demographic data that shows 95% of the area’s farms are considered small farms.

<b>Table 2A - Borrower Distribution to Farms in Appling/Bacon/Charlton/Coffee AA</b>				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	94.51%	2.74%	2.74%	100.00%
% of Bank Loans in AA by #	65.00%	25.00%	10.00%	100.00%
% of Bank Loans in AA by \$	50.49%	43.65%	5.86%	100.00%

There appears to be an even distribution between small farms and large farms. There are 45% of loans less than \$250 thousand and 45% between \$500 thousand and \$1 million. The following chart shows the distribution of loans to farms by loan size.

<b>Table 2C - Borrower Distribution of Loans to Farms by Loan Size in Appling/Bacon/Charlton/Coffee AA</b>				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	% of Dollars
\$0 - \$100,000	6	30.00%	227,212	2.19%
\$100,001 - \$250,000	3	15.00%	543,253	5.25%
\$250,001 - \$500,000	2	10.00%	555,674	5.37%
\$500,001 - \$1,000,000	9	45.00%	9,027,091	87.19%
\$1,000,001 - \$10,000,000	0	0.00%	0	0.00%
Total	20	100.00%	10,353,230	100.00%

**Geographic Distribution of Loans**

Being that the bank’s entire AA is in middle-income census tracts, a geographic distribution analysis is not meaningful. From the review of business and agricultural

loans that we did review, a majority of the loans were in distressed/underserved areas.

**Responses to Complaints - Meets the Standard for Satisfactory Performance**

We reviewed records of consumer complaints regarding FNB South made to our agency and those maintained by the bank in the public file. There was one complaint regarding predatory lending. The bank had their lawyers investigate and found no evidence of predatory lending. The complaint was resolved and the borrower did not pursue the matter any further.

**COMMUNITY DEVELOPMENT TEST**

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

FNB South’s community development performance is satisfactory. FNB South has demonstrated adequate responsiveness to the community development needs of its assessment area, considering its capacity and the needs and opportunities within these areas. The bank originated and purchased three community development loans totaling \$10,385,000 since their last CRA exam. The loans address identified needs in distressed tracts within the AA. The bank also has three qualified investments through investing in tax credits for affordable housing. The bank did not have any community development services. According to the Community Contact, there was an Economic Development retreat in which six banks in the AA invested in with their time and their money that FNB South did not participate. All the banks that did participate are well known in the community for recruiting and assisting in the growing of jobs in the area.

**Community Development Loans**

**FNB South has a satisfactory level of community development loans that showed responsiveness to community needs.** The AA is made up of distressed census tracts. Therefore, the area is in dire need of services that attract new, or retains existing, businesses or residents, and help to meet essential community needs. FNB originated two community development loans in this AA since the last CRA examination totaling \$10,100,000.

- \$100,000 for construction of a modular building for Charlton County Hospital. The loan will allow the hospital to expand specialty services from the St.Vincent's Hospital in Jacksonville, FL and will have a significant effect on the ability to provide healthcare for the residents of Charlton County.
- \$10,000,000 to construct an addition to the Bacon County Hospital. The addition will allow the hospital to better serve the Bacon County community residents.

**Qualified Investments**

**FNB South has a satisfactory level of qualified investments that showed**

**responsiveness to community needs.** During the evaluation period, FNB South made three qualified investments totaling \$700 thousand. The bank has invested in tax credits for low-income housing. As stated before, the assessment area is all distressed and the availability of affordable housing is very important.

- \$200,000 to Stateside Georgia Tax Credit Fund LLC. The bank has invested in Fund I and II for \$100,000 each. Their investment provides affordable housing to low-income people in the state of Georgia.
- \$500,000 to ST Georgia Fund I LLC. This is another tax credit fund for low-income housing.

### **Community Development Services**

**The extent to which the bank provides community development services needs improvement given its size and capacity to provide such services.** The bank has not participated in any Community Development Services since the last CRA exam. From the community contact there is a need for assistance in the start-up of small businesses. There was an Economic Development retreat in Douglas, GA to develop a strategic plan for Coffee County. Six banks within the bank's AA participated, but FNB South did not.

### **Fair Lending or Other Illegal Credit Practices Review – Not Applicable**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.