



PUBLIC DISCLOSURE

April 25, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Wauchula
Charter Number 14882

406 N 6th Avenue
Wauchula, FL 33873

Office of the Comptroller of the Currency
Tampa Field Office
4042 Park Oaks Blvd
Suite 240
Tampa, FL 33610

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 Outstanding.

- *The bank's level of lending, as reflected in the quarterly average net loan-to-deposit ratio, is reasonable given the bank's size and performance context factors.*
- *Based on the performance context, a majority of loans originated during the evaluation period, were inside the bank's assessment area.*
- *Lending activities shows excellent penetration among borrowers of different income levels and businesses of different sizes given its performance context.*
- *The geographic distribution of loans reflects an excellent dispersion throughout the assessment area given the performance context.*

SCOPE OF EXAMINATION

This Performance Evaluation (PE) assesses the bank's record of meeting the credit needs of the community in which it operates. We used the Small Bank Community Reinvestment Act (CRA) examination procedures, which evaluates the bank's record of meeting the credit needs of its assessment area through its lending activities.

The overall evaluation period started on July 20, 2010, the cut-off date of the prior evaluation date, to March 31, 2016. For our lending analysis, our sample included loan originations from January 1, 2014 through March 31, 2016.

Based on discussions with bank management and loan origination reports generated by the bank for the period of January 1, 2014 through March 31, 2016, the bank's primary loan products based on both number and dollar amount were consumer, business and home mortgage lending as noted in the table below. During our review, we found the data represented on the loan origination reports were accurate and reliable for use when selecting our loan sample. Consumer loan originations accounted for the majority of loans by number with 268 (59 percent of total) and \$2 million (14 percent) of total dollar volume. Business loan originations accounted for 106 (23 percent) of total number and \$6 million (40 percent) of total dollar volume. Lastly, home mortgage loan originations accounted for 80 (18 percent) of total number and \$7 million (46 percent) of total dollar volume. As such, our evaluation of the bank's lending performance will reflect all three loan products, as this was more representative of the bank's lending strategy during the evaluation. However, lending performance for consumer loans was given more consideration when arriving at the overall conclusion due to the larger volume of loan originations during the evaluation period in relation to business and home mortgage lending.

Our conclusions were based on an analysis of a statistical random sample of 30 each of consumer, business and home mortgage loans or 90 loans, originated during the evaluation period.

Loan Originations for the time period of 1/1/14 through 3/31/16		
Loan Type	Number of originations	Percentage (%)
Consumer	268	59%
Commercial/CRE	106	23%
Residential RE	80	18%
Total originations	454	100%

DESCRIPTION OF INSTITUTION

First National Bank of Wauchula (FNB of Wauchula) is an intrastate, one office bank located in Wauchula, Florida. The bank was established on January 12, 1960 and is wholly owned by First Hardee Holding Corporation, a one-bank holding company headquartered in Wauchula, Florida.

FNB of Wauchula offers various deposits and loan products for individuals and businesses, which are considered responsive to the banking needs of low-and moderate-income individuals and small businesses. Banking services include an onsite automated teller machine and drive-thru facility, 24-hour telephone banking, Visa check card and internet and mobile banking. In addition, the bank offers no-to-low cost checking and savings accounts. For example, the bank offers a personal checking account with no monthly service charge and only a minimum \$100 deposit to open. A personal savings account is also available with a minimum balance of \$25 to open and no service charge if three or fewer written withdrawals occur per calendar quarter. Additionally, the bank offers a business checking account with a minimum opening balance of \$100 and a monthly service charge of \$8 a month and a \$0.10 fee per check paid. However, the amount of service charge is reduced by \$0.25 for each \$100 maintained in the account balance for the month.

The bank also provides a variety of lending programs, but generally, its primary focus has been in consumer, commercial and home mortgage lending. Agriculture loans are not a primary loan product for the bank due to a very large lending cooperative in the assessment area, which is a member of the Farm Credit System and specializes in agricultural lending. The institution has an office located in Wauchula and offers very competitive interest rates and terms to meet the credit needs of farmers in the area.

The composition of the loan portfolio as of March 31, 2016 is charted and is based on total loans of \$40.7 million.

Composition of the Loan Portfolio as of 3/31/2016		
Loan Secured By:	Dollar Amount (000)	Percentage (%)
Residential RE	\$21,243	52%
Commercial/CRE	\$13,110	32%
Agriculture	\$4,306	11%
Consumer	\$2,081	5%

Home mortgage products offered by the bank include home purchase, home construction and home improvement loans and generally made to borrowers that do not qualify under secondary market underwriting standards due to various factors. To address the home mortgage credit needs of the community, the bank recently introduced an adjustable rate mortgage (ARM) product with flexible terms, which complements the balloon mortgage products already offered. In addition, FNB of Wauchula continues to serve as a loan broker with an established regional mortgage company by arranging and closing long-term, fixed rate loans for which the bank would otherwise not be able to originate due to its limited lending capacity. Further, the bank continues to provide mortgage funds for homeownership or home repair to those qualified borrowers that received assistance from state housing funds, which has been identified as a credit need in the community.

As of March 31, 2016, the bank reported total assets of \$72 million and total deposits of \$62 million. Net loans (net of unearned income and allowance) of \$40 million represent 55 percent of total assets.

For three years during the evaluation period, the bank did have legal impediments that would prevent the bank from meeting the credit needs of the assessment area it serves. The bank's ability to lend was impacted by the terms of an agreement with our agency. In addition, the economy in the assessment was impacted by the downturn in the real estate market and resulting recession and slow to recover. As such, FNB of Wauchula's ability and opportunity to lend, especially to low-and moderate-income borrowers, as well as to small businesses, has been impacted by the weak economy, which only recently has seen some improvement. The bank received a "Satisfactory" rating at the last CRA examination dated July 19, 2010.

DESCRIPTION OF ASSESSMENT AREA

FNB of Wauchula has one assessment area (AA) in the State of Florida. The AA encompasses the geographic boundaries of Hardee County and includes the cities of Bowling Green, Ona, Wauchula (county seat), and Zolfo Springs. The AA consists of six nonmetropolitan tracts to include one moderate-, four middle- and one upper-income. All four nonmetropolitan middle-income tracts have been designated as distressed during the evaluation period due to high poverty rates in Hardee County. A distressed nonmetropolitan middle-income tract is an agency-designated area that

encourages economic growth and development by attracting and retaining businesses and residents in order to stabilize and revitalize the county. The bank's office is located in a designated distressed middle-income nonmetropolitan tract.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income geographies. Specific demographic and economic data for the assessment area are detailed below.

Demographic and Economic Characteristics of the Hardee County Assessment Area			
2015 Median Family Income (MFI) for the nonmetropolitan areas of Florida		\$48,000	
<i>Based on MFI:</i>			
Low-income individuals earn:	<\$23,999		
Moderate- income individuals earn:	\$23,999-\$38,399		
Geographies			
	Number of Census Tracts		6
	% Low-Income Census Tracts (0)		00.00%
	% Moderate-Income Census Tracts (1)		16.66%
	% Middle-Income Census Tracts (4)*		66.67%
	% Upper-Income Census Tracts (1)		16.67%
Income Distribution			
Number of Households	7,694		
Households residing in the AA by income category			
% Low-Income Households	20.90%		
% Moderate-Income Households	20.47%		
% Middle-Income Households	19.03%		
% Upper-Income Households	39.60%		
Businesses			
	Number of non-farm businesses located in the AA		1,535
	% of Small Businesses located in the AA		76.29%
	% of Large Businesses		2.61%
	% of Business with no revenues reported		21.10%
<i>Source: 2010 Census, 2015 FFIEC Median Family Income Data & 2014 Dunn and Bradstreet Data. *Agency Designated Distressed Middle-Income Nonmetropolitan Tract for the years 2010 through 2016.</i>			

According to the 2010 U.S. Census Bureau economic data, the assessment area had a total population of 27,731 and 19.69 percent of households were living below the poverty level. The U.S. Census Bureau estimated the 2015 population as 27,502, a decrease of less than a one percent from the 2010 population. There is a large migrant population in the county; however, this population tends to be transient and not year-round residents. Further, the U.S. Census Bureau estimated 29.9 percent of the population in 2014 lived below the poverty level. Based on 2014 Dunn and Bradstreet demographic data, there are 1,535 non-farm businesses located throughout the assessment area of which 1,171 or 76.29 percent are small business.

Hardee County is located approximately 65 miles southeast of Tampa and southwest of Orlando. Hardee County is a noncoastal, rural nonmetropolitan area consisting of vast acres of agricultural and vacant land. Historically three industries drive the economy, citrus groves, cattle production and phosphate mining. Mining represents a significant area in the northeast section of Hardee County. As with most areas in the State of

Florida and throughout the country, the economy in the AA has been adversely impacted in previous years due to high unemployment rates, foreclosures and declines in home values. Although the economic recovery is still in process and steady job growth should continue to move the economy forward, weaknesses continue to include wages and income levels significantly below the state and national levels and the negative impact of greening on the agriculture (citrus) industry.

According to the U.S. Department of Labor, Bureau of Labor Statistics, as of March 31, 2016 the unemployment rate (not seasonally adjusted) for Hardee County was 5.1 percent, which is a slight improvement from the 5.9 percent rate the same period last year. However, the unemployment rate is still slightly above the state's unemployment rate of 4.7 percent and the national rate of 5.0 percent. According to the Hardee County Economic Development Council website, the largest employers are Mosaic, Florida Institute for Neurological Rehabilitation, Walmart and Peace River Electric Corporation. Large industries include natural resources and mining, government, and trade, transportation and the utilities sectors.

There is significant banking competition for financial services in Hardee County. According to FDIC deposit market share as of June 30, 2015, there is only one other FDIC insured bank, Wauchula State Bank, which operates three offices within the county encompassing an 83 percent deposit market share. In addition, as previously mentioned, there is a local Farm Credit office as well as two Florida credit unions with offices throughout the county.

During a CRA evaluation, it is customary for examiners to contact various persons and organizations within the institution's assessment area to gain insight regarding local economic conditions and credit needs. The organization we contacted serves Hardee County. According to the contact, the most pressing credit need is financing for multifamily housing in the market. The contact also stated that although demand for home mortgage loans has only slightly increased in the past three years, there is a continued need for mortgage financing to those first time homeowners that receive state housing funds assistance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio-Meets the Standard for Satisfactory Performance

The bank's level of lending, as reflected in the quarterly average net loan-to-deposit (LTD) ratio is reasonable given the bank's size and performance context factors. The bank's quarterly average net LTD ratio since the preceding CRA evaluation (22 quarters starting September 2010 and ending December 2015) is 67.29 percent, ranging from a high 83.07 percent in the third quarter of 2010 to a low of 58.33 percent in the second quarter of 2015. FNB of Wauchula's quarterly average LTD ratio is slightly lower than the 69.58 percent quarterly average LTD ratio of four similarly situated banks operating within four counties that border the bank's assessment area. The community banks

selected had less than \$140 million in total assets and offer similar lending and deposit products.

Lending in Assessment Area-Exceeds the Standard for Satisfactory Performance

Based on the performance context, a majority of loans originated during the evaluation period were inside FNB of Wauchula’s assessment area. Our conclusion is based on an analysis of a sample of ninety consumer, business and home mortgage loans originated during the period of January 1, 2014 through March 31, 2016. As detailed in the table below, 84.44 percent by number and 63.93 percent by dollar amount of originated loans were within the bank’s assessment area. Loans originated outside the county were in adjacent counties.

Lending in the Hardee County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	27	90.00%	3	10.00%	30	\$1,921	79.12%	\$507	20.88%	\$2,428
Consumer	25	83.33%	5	16.67%	30	\$133	64.25%	\$74	35.75%	\$207
Business	24	80.00%	6	20.00%	30	\$1,081	47.64%	\$1,188	52.36%	\$2,269
Totals	76	84.44%	14	15.56%	90	\$3,135	63.93%	\$1,769	36.07%	\$4,904

Source: Sample of home mortgage, consumer and business loans for the period of January 1, 2014 through March 31, 2016.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes-Exceeds the Standard for Satisfactory Performance

FNB of Wauchula’s lending activities shows excellent penetration among borrowers of different income levels and businesses of different sizes given its performance context. Our conclusion is based on the same sample of 27 home mortgage loans, 24 business loans and 25 consumer loans originated within the assessment area. As noted in the three tables below, for home mortgage and consumer loans, we compared the distribution of lending among borrowers of different income levels as compared to the percent of families and households in each income category within the AA, respectively. For business loans, we compared the distribution of lending among different sized businesses in relation to small businesses located within the AA.

Home Mortgage Loans:

Given the performance context, the distribution of home mortgage loans reflects excellent penetration among borrowers of different income levels. We compared the income distribution of the bank’s borrowers to the income distribution of the families within the assessment area, using the Federal Financial Institutions Examination Council’s (FFIEC) 2015 median family income for nonmetropolitan tracts located in the State of Florida. As depicted in the table below, the percentage of lending to moderate-income families in the AA exceeds the percentage of moderate-income families residing in the assessment area. FNB of Wauchula’s lending to low-income borrowers although

slightly lower than the percentage of low-income families residing in the AA is excellent in comparison to the performance context of the AA. As mentioned in the *Description of the Assessment Area*, the four middle-income tracts in the AA were designated by the banking regulators during the evaluation period as distressed due to the high poverty rate. In addition, based on FFIEC’s 2015 median family income of \$48,000, the maximum income that is considered low-income is \$23,999. As a result, low-income families would encounter difficulty qualifying for any home mortgage loan.

Borrower Distribution of Residential Real Estate Loans in the Hardee County Assessment Area								
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
Home Mortgage	22.12%	18.52%	21.37%	25.93%	19.84%	11.11%	36.67%	44.44%

Source: Sample of home mortgage loans for the period of January 1, 2014 through March 31, 2016, 2010 U.S. Census and 2015 FFIEC Median Family Income Data.

Business Loans

FNB of Wauchula’s record of lending to businesses of different sizes reflects excellent penetration and exceeds the standard for satisfactory performance. As noted in the table below, the percentage of the bank’s business loans to small businesses (those with total revenues of \$1 million or less) significantly exceeds the percent of small businesses operating in the assessment area. Based on our sample of 24 business loans in the assessment area, the bank originated 91.67 percent of the total number of loans and 89.09 percent of the total dollar volume of loans to small businesses. In comparison, 76.29 percent or 1,171 businesses operating in the assessment area report revenues considered small businesses. In addition, of the 24 business loans originated, 22 loans or 92 percent were in amounts less than \$100 thousand, a further indication that the bank is meeting the credit needs of small businesses.

Borrower Distribution of Loans to Businesses in the Hardee County Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.29%	2.61%	21.10%	100%
% of Bank Loans in AA by #	91.67%	8.33%	0.00%	100%
% of Bank Loans in AA by \$	89.09%	10.91%	0.00%	100%

Source: Sample of business loans for the period of January 1, 2014 through March 31, 2016 and 2014 Dunn and Bradstreet data.

Consumer Loans

FNB of Wauchula’s consumer lending shows excellent penetration among low- and moderate-income borrowers. As shown in the table below, for both low-and moderate-income households, the percentage of the bank’s loans exceeds the percentage of such households residing in the assessment area. FNB of Wauchula’s consumer lending of 32 percent to low-income borrowers significantly exceeds the 20.90 percent of low-income households residing in the assessment area. Likewise, 28 percent of consumer

lending to moderate-income borrowers exceeds the 20.47 percent of moderate-income households residing in the assessment area.

Borrower Distribution of Consumer Loans in the Hardee County Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	20.90%	32.00%	20.47%	28.00%	19.03%	20.00%	39.60%	20.00%

Source: Sample of consumer loans for the period of January 1, 2014 through March 31, 2016, U.S.2010 Census data, and 2015 FFIEC Median Family Income Data.

Geographic Distribution of Loans- Exceeds the Standard for Satisfactory Performance

The geographic distribution of loans reflects an excellent dispersion throughout the assessment area given the performance context. Our analysis was based on the same 76 home mortgage, business and consumer loans included in our sample and originated in the AA as noted above. For home mortgage and consumer loans, we compared the geographic distribution of loans in the sample within these income tracts in comparison to the percentage of owner-occupied housing and households located in each tract income category, respectively, within the AA. For business loans, we compared the geographic distribution of loans in the sample within these income tracts to the percentage of businesses located in each tract income category within the AA. Our analysis found the bank’s lending encompassed all six-census tracts within the assessment area. As noted in the *Description of the Assessment Area* above, there are no low-income and one moderate-income census tract in Hardee County. In addition, the four middle-income tracts are designated as distressed during the evaluation period due to the high poverty levels in the county.

Home Mortgage Loans

FNB of Wauchula’s geographic distribution of home mortgage loans reflects excellent dispersion given the performance context. As depicted in the table below, the level of lending in the moderate-income tract exceeds the percentage of owner-occupied housing in the moderate-income census tract within the AA. Further, the bank extended over 81 percent of its home mortgage lending in middle-income geographies designated as distressed by the agencies due to high poverty rates. Lending in moderate and distressed middle-income tracts is responsive and reflects positive geographic distribution of home mortgage loans.

Geographic Distribution of Home Mortgage Loans in the Hardee County Assessment Area								
Census Tract 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
Home Mortgage	0.00%	0.00%	13.94%	14.81%	80.53%	81.48%	5.53%	3.71%

Source: Sample of home mortgage loans for the period of January 1, 2014 through March 31, 2016 and 2010 U.S. Census Data.

Business Loans

The bank’s geographic distribution of business lending reflects excellent dispersion given the performance context. As shown in the table below, business lending in the moderate-income geography exceeds the percentage of businesses located in the moderate-income geography within the assessment area.

Geographic Distribution of Loans to Businesses in the Hardee County Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.00%	0.00%	6.25%	8.33%	87.82%	79.17%	5.93%	12.50%

Source: Sample of business loans for the period of January 1, 2014 through March 31, 2016 and 2014 Dunn and Bradstreet data.

Consumer Loans

FNB of Wauchula’s geographic distribution of consumer lending reflects excellent dispersion given the performance context. As depicted in the table below, the bank’s level of consumer lending in the moderate-income geography significantly exceeds the percentage of households residing in the moderate-income geography in the assessment area. Further, the bank extended 72 percent of its consumer lending in middle-income geographies designated as distressed due to high poverty rates. Lending in moderate and distressed middle-income census tracts is responsive and reflects positive geographic distribution of consumer loans.

Geographic Distribution of Consumer Loans in the Hardee County Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00%	0.00%	13.93%	20.00%	81.14%	72.00%	4.93%	8.00%

Source: Sample of consumer loans for the period of January 1, 2014 through March 31, 2016 and U.S.2010 Census data.

Responses to Complaints

There have been no CRA related complaints received by the bank or our office since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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