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Comptroller of the Currency  
Administrator of National Banks

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South Florida Field Office  
5757 Blue Lagoon Drive, Suite 200  
Miami, Florida 33126

## **PUBLIC DISCLOSURE**

**September 29, 1997**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Kislak National Bank  
Charter Number 15190**

**13490 NW 7th avenue  
North Miami, Florida 33168**

**Office of the Comptroller of the Currency**

**South Florida Field Office  
5757 Blue Lagoon Drive, Suite 200  
Miami, Florida 33126**

**NOTE: 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.**

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Kislak National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 29, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

**INSTITUTION'S CRA RATING:** This institution is rated:  
**“Substantial Noncompliance”**

Kislak National Bank's (**Kislak**) last CRA performance evaluation was performed in April 1994. At that time a “Satisfactory” rating was assigned.

At this examination, Kislak's CRA performance was evaluated using the performance criteria for small banks. **This evaluation period covers performance since the previous evaluation. We focused on the lending activity in the bank's assessment areas during 1995, 1996, and through September 1, 1997.**

Kislak's lending activity in its assessment areas during the evaluation period was very low in relation to its available financial resources and the many credit needs of the assessment areas. While the bank experienced a variety of strategic, financial, and managerial changes during the evaluation period, it had the ability and responsibility to reasonably meet the credit needs of its assessment areas, but it did not. As a result, **Kislak is in substantial noncompliance with the CRA.**

Kislak's quarterly average loan to deposit ratio since the last CRA evaluation is less than reasonable given the financial resources that were available to lend and the many credit needs of the assessment areas. The ratio is also lower, over the majority of the evaluation period, to the ratio of four similarly situated banks near its assessment areas.

A substantial majority of the loans originated or purchased during the evaluation period were outside the assessment area. The few loans originated or purchased in the assessment areas are very poorly distributed amongst geographies or census tracts of different income levels, including those geographies that are low- and moderate-income.

There were too few loans originated or purchased to conduct a meaningful analysis of the loan penetration among individuals of different income levels and businesses of different sizes. Nonetheless, the bank's low volume of lending demonstrates poor loan penetration in any income segment. There was minimal lending to businesses.

The bank has received no complaints regarding its CRA performance.

The following table indicates the performance level of **Kislak National Bank** with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>KISLAK NATIONAL BANK</u> PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio			X
Lending in Assessment Area			X
Lending to Borrowers of Different Incomes and to businesses of Different sizes			X
Geographic Distribution of Loans			X
Response to Complaints	No complaints were received since the prior CRA examination.		

## **DESCRIPTION OF INSTITUTION**

Kislak is a community bank located in northern Dade County and owned by local investors. The bank's two offices are located in North Miami and Miami Lakes. The area of the North Miami office is characterized by moderate income residents, moderately priced homes and condominiums, and small businesses. The area of the Miami Lakes office is more affluent.

As of June 30, 1997, the bank had total assets of \$72 million. Loans totaled \$22 million and available for sale investments were \$24 million. Deposits were \$36 million. Capital was 47% of total assets. There were no legal, financial, or other impediments to Kislak serving its community.

The loan portfolio was composed of 51% residential real estate, 15% home equity and multifamily credit, 31% commercial, commercial real estate, and loans secured by farmland, and 3% consumer/installment loans.

## **PERFORMANCE CONTEXT**

### **Strategic Issues**

For years the bank's primary business was mortgage banking. It had close business ties to its corporate affiliate Kislak Mortgage Corporation (KMC). At one point the bank provided lines of credit to KMC and a large portion of the bank's deposits were mortgage-related escrow accounts. During late 1995 and 1996 KMC sold most of its assets and mortgage servicing operations. This essentially eliminated the bank's main line of business. Additionally, during the second quarter of 1996 the bank sold its mortgage servicing portfolio.

Kislak has been refocusing its business strategy for several years. In May 1996 management proposed realigning the bank to establish a community presence, including offering a variety of retail and commercial loan and deposit products and services. The Board of Directors did not approve this plan. They stated that the plan was too broad and recommended developing a more specialized line of business. No formal revisions to the plan were done. Lending activity has remained relatively dormant. Except for a home equity line of credit product that generated few loans, no lending programs were implemented.

### **Financial Issues**

During 1995 lending primarily centered on mortgage business left over from previous years. The most significant lending activity was purchasing loans as part of the "Florida '92 program", a government-supported statewide loan program for low- and moderate-income first time home buyers and borrowers in targeted areas. The bank's main function was to purchase, package, and sell these loans to the secondary mortgage market. This activity ended in 1995. This was a statewide program, so the few loans from the bank's assessment areas were coincidental.

In 1996 and through September 1, 1997 lending activity in the assessment areas was minimal. Most of the loans originated were secured by home equity and certificates of deposits, and many were for debt consolidation. The bank also purchased delinquent residential mortgage loans from KMC and their own servicing portfolios.

The bank's deposits declined sharply during our evaluation period due to KMC moving much of its deposit relationship to another bank. Also, deposits related to mortgage escrows declined after KMC and the bank sold its servicing portfolios. Bank management indicated that this reduction in funding, in addition to the strategic issues already discussed, impaired the bank's ability to lend.

The bank also experienced reductions in loans, i.e. loans were paid off or sold. A large portion of this reduction in loans created liquidity to fund the deposit outflows. While some liquidity volatility existed, liquidity was being provided, in part, by the reduction in loans.

The bank maintained, throughout the period, moderately high levels of liquid assets. A portion of these assets were available, and could have been used to meet assessment areas' credit needs in a safe and sound manner. **(Refer to the Loan to Deposit ratio criteria in this evaluation for details).**

## **DESCRIPTION OF THE ASSESSMENT AREAS**

Kislak's assessment area consists of most of Dade County and the southern portion of Broward County. Dade and Broward Counties are each Metropolitan Statistical Areas (MSAs). The two assessment areas are contiguous.

### **Dade County MSA**

Kislak's Dade County assessment area covers the entire county except for the extreme southern sections of the county. The assessment area consists of 246 of the 267 census tracts of the Dade County MSA and has a population of 1.8 million. Some of the major industries include tourism, real estate development, health care, and trade business with Latin America. The area has a diverse population including a large immigrant population from Latin America.

The demographics of the assessment area's census tracts according to the 1990 U.S. Census are as follows: 14% are low income census tracts, 22% are moderate income tracts, 34% are middle income tracts, and 30% are upper income tracts. The median family of the MSA's census tracts was \$31,113.

Note: A low income census tract has less than 50% of the median family income of the MSA, a moderate income tract has 50% to 79%, a middle income tract has 80% to 119%, and an upper income census tract has 120% or more of the median family income of the MSA.

This assessment area does not cover the entire MSA. However it complies with the regulation because it includes both office locations, consists only of whole census tracts, does not reflect illegal discrimination, does not arbitrarily exclude low- or moderate-income areas, and represents an area that the institution can reasonably serve.

### **Broward County MSA**

Kislak's Broward County assessment area covers the southern portion of the county. This assessment area consists of 22 of the 164 census tracts of the Broward MSA and has a population of 184,378. The central and eastern sections of the assessment area have a large retiree population and many small businesses. The western portion of the assessment area is more affluent with many medium to high priced residential communities. Major industries include health care, real estate development, and tourism.

The demographics of the assessment area's census tracts according to the 1990 U.S. Census are as follows: 5% are low income census tracts, 36% are moderate income tracts, and 55% are middle income tracts. There are no upper income census tracts in this assessment area. Also, one tract did not report income (4%) but the bank made no loans in this tract. The median family income of the MSA's census tracts was \$32,016.

This assessment area does not cover the entire MSA. However it complies with the regulation because it consists only of whole census tracts, does not reflect illegal discrimination, does not arbitrarily exclude any low- or moderate-income areas, and is relatively close to the bank's two offices. Including the entire MSA would make the assessment area too large for the bank to reasonably serve.

### **Assessment Areas' Credit Needs**

Information about the credit needs of the assessment areas was obtained from recent community contacts conducted by federal bank regulators in connection with other CRA examinations. These contacts revealed many credit needs. **The most pressing credit needs identified by these contacts are for affordable home financing, home improvement, and small business loans. This evaluation found that Kislak made very few of these types of loans in its assessment areas relative to its available financial resources.**

Kislak has strong competition from affiliates of regional banks, community banks, mortgage companies, and credit unions. Nonetheless, Kislak had the financial resources to be able to lend more in its assessment areas.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### Loan to Deposit Ratio

**Conclusion:** Kislak's average loan to deposit ratio since the last CRA examination is less than reasonable given the bank's available financial resources, financial condition, and the assessment areas' identified credit needs.

### **Support of Conclusion:**

Kislak's average loan to deposit ratio since the last CRA examination was 45%. This ratio is lower than the average ratio of 56% of four similarly situated banks in the assessment areas. These four banks are similar in asset size, and number and location of banking offices. Also, these banks have had lending restrictions at various times during this CRA evaluation period.

Kislak had financial resources available for additional lending. As the following table illustrates the bank maintained moderately high levels of liquid assets throughout the evaluation period, some of which could have been used to fund loans. The column in the far right shows Kislak's liquid assets.

Quarter	Loans	Deposits	Loan to Deposits	Liquid Assets*
9/30/94	\$42 million	\$184 million	23%	\$51 million
12/31/94	\$65	\$106	61%	\$12
3/31/95	\$56	\$142	39%	\$46
6/30/95	\$42	\$135	31%	\$38
9/30/95	\$42	\$134	31%	\$44
12/31/95	\$35	\$94	37%	\$50
3/31/96	\$33	\$100	33%	\$61
6/30/96	\$29	\$87	33%	\$69
9/30/96	\$28	\$54	52%	\$38
12/31/96	\$25	\$34	74%	\$26
3/31/97	\$24	\$36	67%	\$30
6/30/97	\$22	\$36	61%	\$28



\* **Liquid assets** consist of interest-bearing deposits with other banks, federal funds sold, unpledged U.S. Government Treasury and Agency Securities, municipal bonds, and other securities. It does not include cash on hand or non-interest bearing deposits with correspondent banks used in daily operations.

Kislak's loan to deposit ratio increased to over 60% in late 1996 and 1997; however, this was due to a decline in deposits. Few loans were originated.

Kislak's average loan to total assets ratio since the last CRA examination was 25% versus 48% for the same four similarly situated banks over the same time period. This is further support of the low volume of lending relative to the bank's total available financial resources.

**Lending in the Assessment Area**

**Conclusion:** A substantial majority of the bank's loans in 1995 and 1996 were outside of the assessment areas. All four loans made through September 1, 1997 were inside the assessment areas.

**Support of Conclusion:**

YEAR - 1995

VOLUME OF LOANS			
INSIDE Assessment Areas		OUTSIDE Assessment Areas	
\$5,485,545	or 8%	\$62,207,933	or 92%
NUMBER OF LOANS			
INSIDE Assessment Areas		OUTSIDE Assessment Areas	
28	or 3%	853	or 97%

These figures include loan originations under the Florida '92 program, repurchased loans from KMC's mortgage servicing portfolio, and new originated loans.

New loans originated in 1995 totaled \$4.72 million. However this figure does not truly reflect lending in the assessment areas. About \$4.5 million, or 95% in terms of dollars, represents two loans to a securities broker-dealer with offices in Florida, New York, and California for financing certificate of deposits brokering activity. These two loans are for credit activity that does not meet an identified credit need of the assessment areas. Excluding these two loans, the bank only originated \$220,000 in new loans in the assessment areas in 1995.

YEAR - 1996

VOLUME OF LOANS

INSIDE Assessment Areas			OUTSIDE Assessment Areas		
\$579,468	or	<b>32%</b>	\$1,229,087	or	<b>68%</b>

NUMBER OF LOANS

INSIDE Assessment Areas			OUTSIDE Assessment Areas		
15	or	<b>44%</b>	19	or	<b>56%</b>

These figures include repurchased loans from KMC's mortgage servicing portfolio and new loans. New loans in 1996 in the assessment areas totaled only \$92,050, mostly debt consolidation loans secured by real estate equity or cash. These credits do not address credit needs of the assessment areas as identified by recent community contacts.

Through September 1, 1997, the bank had originated four loans for \$59,300. All of them in the assessment areas, for personal purposes, and secured by cash. Again, very few loans and their purpose does not address identified assessment area credit needs.

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

**Conclusion:** There were too few loans originated or purchased to conduct a meaningful analysis of the loan penetration among individuals of different income levels and businesses of different sizes. Nonetheless, the bank's low volume of lending demonstrates poor loan penetration in any income segment. There was one loan for \$10,000 to a small business (i.e. businesses with annual gross revenues of under \$1 million).

**Support of Conclusion:**

Out of 47 loans originated or purchased in the assessment areas during 1995, 1996 and through September 1, 1997, there were only 20 loans from the bank's assessment areas with income information on the borrower

## Geographic Distribution of Loans

**Conclusion:** The few loans originated or purchased in the assessment areas are very poorly distributed amongst geographies of different income levels, especially those geographies that are low- and moderate-income.

### **Support of Conclusion:**

While the bank has only two banking locations, there are many low- and moderate-income geographies close to the bank's locations with a variety of credit needs and lending opportunities. Yet, lending in these areas, as well as overall lending volume, was minimal.

### Dade County Assessment Area

The following table shows the geographic distribution of the 36 loans originated or purchased in the Dade County assessment area during 1995, 1996 and through September 1, 1997.

Income Level of Census Tracts	Distribution of Bank Loans in the Census Tracts of the Assessment Area	Distribution of Census Tracts in the Assessment Area by Tract's Income
Low	<b>3%</b>	<b>14%</b>
Moderate	<b>8%</b>	<b>22%</b>
Middle	53%	34%
Upper	36%	30%

The bank made 4 of 36 loans in low-and moderate-income census tracts. Both the number of loans and the percentage of loans in low- and moderate-income census tracts is very low.

In addition, a substantially smaller percentage of loans were originated or purchased in low-and moderate-income census tracts relative to the percentage of low-and moderate-income census tracts of the assessment area.

## Broward County Assessment Area

The following table shows the geographic distribution of the 11 loans originated or purchased in the Broward County assessment area during 1995, 1996 and through September 1, 1997.

Income Level of Census Tracts	Distribution of Bank Loans in the Census Tracts of the Assessment Area	Distribution of Census Tracts in the Assessment Area by the Tract's Income
Low	0%	5%
Moderate	18%	36%
Middle	82%	55%
Upper	0%	0%

\* one census tract (4%) did not report income.

The bank made 2 of 11 loans in low-and moderate-income census tracts. Both the number of loans and the percentage of loans in low- and moderate-income census tracts is very low.

In addition, a substantially smaller percentage of loans were originated or purchased in low-and moderate-income census tracts relative to the percentage of low- and moderate-income census tracts of the assessment area.

### **Response to Complaints**

Kislak has not received any complaints regarding its CRA performance.

### **Compliance with Antidiscrimination Laws and Regulations**

Our previous consumer compliance examination and reviews performed by the bank's compliance officer noted substantial compliance with antidiscrimination laws and regulations. In addition, annual training is provided to bank personnel on antidiscrimination laws and regulations.