



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

### **PUBLIC DISCLOSURE**

**June 15, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank and Trust  
Charter Number 14775**

**29 Eglin Parkway NE  
Fort Walton Beach, FL 32549**

**Comptroller of the Currency  
New Orleans Field Office  
3838 North Causeway Boulevard Suite 2890  
Metairie, LA 70002**

**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.**

- First National Bank and Trust (FNBT) has a reasonable loan to deposit ratio given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of loans are in the institution's assessment areas.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area(s).
- The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area(s) through community development investments, community development loans, and community development services.

## **DESCRIPTION OF INSTITUTION**

First National Bank and Trust (FNBT) is wholly-owned by Southern National Banks, Inc., a one-bank holding company. FNBT is an intrastate bank with 12 locations operating in the panhandle of Florida in Okaloosa, Santa Rosa, Walton and Bay Counties. FNBT has two wholly-owned operating subsidiaries including Mortgage One, a mortgage subsidiary, and American Finance Corporation, a finance company. Subsidiary activity was not included within the scope of this CRA evaluation. FNBT has not been involved in any merger or acquisition activity during the evaluation period.

As of June 30, 2006, FNBT reports total assets of \$410 million. Loans account for approximately 53 percent of total assets. Commercial related loans account for 44 percent of the loan portfolio, and residential real estate loans account for 24 percent of the portfolio. Given assessment area needs and the significance of each product type, equal weight was placed on these two products when evaluating the bank's CRA performance.

FNBT offers a wide array of banking products. The bank strives to serve small- and medium-sized businesses and retail customers. The primary lines of business are residential mortgage, commercial mortgage, and construction and development. The bank also offers a variety of other personal and commercial loan types.

FNBT's primary market is Okaloosa County with seven branches located within this county. Additional branches include one in Santa Rosa County, one in Bay County and three in Walton County. Corporate activity during the evaluation period includes one branch opening in Okaloosa County and one branch closing in Baker, Florida. The bank's branch network is augmented by an extensive network of approximately 100 ATM(s).

FNBT has designated four CRA assessment areas (AAs). The Fort Walton AA consists of Okaloosa County. Since the main office and majority of branches are located within this county, performance in this AA was given the greatest weight. Based on bank records, 52 percent of loans were made within Okaloosa County in 2005. As of June 2006, FNBT ranked 3<sup>rd</sup> of 23 financial institutions with a 7.9 percent deposit market share in Okaloosa County.

Walton County was also given significant weight when deriving the final CRA rating. A notable volume of loans were extended in Walton County. Bank records indicate that 36 percent of loans were originated within Walton County in 2005. As of June 2006, FNBT ranked 9<sup>th</sup> of 14 financial institutions with a 3.3 percent deposit market share.

The impact of CRA performance in Bay County and Santa Rosa County was minimal when deriving final conclusions. Only four percent of loans were originated in each of these counties in 2005. Also, FNBT has less than one percent of the deposit market in each of these counties. Limited analysis was conducted for these AA(s) and detailed information is not included in this report since these areas do not carry significant weight in the rating conclusions.

Local banking competition is aggressive and includes affiliates of large national banking companies, regional banks, numerous community banks, credit unions, and various non-bank financial service providers.

No legal, financial or other factors impede the bank's ability to help meet the needs in its AAs. FNBT received a "Satisfactory" rating at the prior CRA evaluation dated September 30, 2003.

## **DESCRIPTION OF OKALOOSA COUNTY**

FNBT has defined all of Okaloosa County as an AA. Crestview is the county seat, and Fort Walton Beach is the largest city in the MSA. Okaloosa County is the only county in the Fort Walton Beach-Crestview-Destin MSA. The AA meets regulatory requirements, and does not arbitrarily exclude low- or moderate-income geographies.

Destin is located in Florida's panhandle, and is a beach and fishing resort community on the Gulf of Mexico. Storms in recent years impacted the local economy and caused significant beach erosion. A beach restoration project is being completed as a result of the erosion.

Several hurricanes over the past few years impacted Okaloosa County, and the area is included in FEMA Major Disaster Declarations for Hurricanes Dennis, Wilma and Katrina. The table below provides economic and demographic information for the Okaloosa County AA.

<b>Demographic and Economic Characteristics of Okaloosa County Assessment Area</b>
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Population
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Total Population	170,498
Number of Families	46,858
Number of Households	66,373
<b>Geographies</b>	
Number of Census Tracts	33
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	12%
% Middle-Income Census Tracts	73%
% Upper-Income Census Tracts	15%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$48,882
2005 HUD-Adjusted MFI	\$55,150
<b>Economic Indicators</b>	
Unemployment Rate	2.1%
2000 Median Housing Value	\$107,467
% Households Below Poverty Level	8%

*Source: 2000 Census data and HUD updated income data.*

A contact with a community leader indicated that the area recently experienced a slow down in the housing market, especially for condominiums. However, commercial real estate construction remains strong.

## **DESCRIPTION OF WALTON COUNTY**

FNBT designated all of Walton County as an AA. Walton County is located east of Okaloosa County in the panhandle of Florida. Walton County is not part of an MSA. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income census tracts.

Three municipalities are located in the county: DeFuniak Springs, Freeport and Paxton. Walton County borders Alabama on the north and reaches to the Gulf of Mexico.

The county is growing and has a strong economy. An industrial park is being developed, and the population continues to grow. Eglin Air Force Base is located in the county. Walton County also has approximately 26 miles of beaches.

Beach related tourism is an important part of the local economy, and timberland and agriculture are important to the northern portions of the county. Situated next to Okaloosa County, Walton County has also experienced several hurricanes and is included in FEMA Major Disaster Declarations.

<b>Demographic and Economic Characteristics of Walton County Assessment Area</b>
Population

Total Population	40,601
Number of Families	11,300
Number of Households	16,566
<b>Geographies</b>	
Number of Census Tracts	6
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	83%
% Upper-Income Census Tracts	17%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$39,055
2005 HUD-Adjusted MFI	\$42,250
<b>Economic Indicators</b>	
Unemployment Rate	1.9%
2000 Median Housing Value	\$113,065
% Households Below Poverty Level	14%

*Source: 2000 Census data and HUD updated income data.*

## **DESCRIPTION OF BAY COUNTY**

FNBT has designated Bay County as an AA. Bay County is the only county in the Panama City-Lynn Haven MSA. Bay County is also located in the Florida panhandle and borders the gulf coast. This AA is adjacent to Walton County which borders Bay County on the West. Panama City is the largest city in the county.

Beach related tourism is important to the local economy. Major employment includes the local school district, medical center, Tyndall Air Force Base and Naval Support Activity – Panama City. Bay County has been impacted by recent hurricanes and is included in FEMA Major Disaster Declarations. Despite the hurricanes, the economy remains good. Over the past decade Bay County has experienced fast growth, mostly related to the coastal beaches. The table that follows provides demographic information for Bay County:

<b>Demographic and Economic Characteristics of Bay County Assessment Area</b>
Population

Total Population	148,217
Number of Families	40,653
Number of Households	59,594
<b>Geographies</b>	
Number of Census Tracts	29
% Low-Income Census Tracts	3%
% Moderate-Income Census Tracts	35%
% Middle-Income Census Tracts	41%
% Upper-Income Census Tracts	21%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$43,855
2005 HUD-Adjusted MFI	\$49,300
<b>Economic Indicators</b>	
Unemployment Rate	2.3%
2000 Median Housing Value	\$89,146
% Households Below Poverty Level	13%

*Source: 2000 Census data and HUD updated income data.*

## **DESCRIPTION OF SANTA ROSA COUNTY**

Santa Rosa County is designated as an AA. Santa Rosa County is part of the Pensacola-Ferry Pass-Brent MSA (Pensacola MSA). The AA meets regulatory requirements, and does not arbitrarily exclude low- or moderate-income census tracts. Okaloosa County borders Santa Rosa County to the East.

The southern portion of the county includes the gulf coast, and has developed as a bedroom community for Pensacola on the west and Hurlburt Field, Fort Walton Beach, and Eglin Air Force Base to the east. The northern portion of the county has extensive forests, and is not intensely developed with a largely forest and farming economy. Pensacola is the largest city in the MSA, but is outside of the AA. Three municipalities in the county are Gulf Breeze, Jay, and Milton.

The Pensacola MSA has been impacted by hurricanes over the past few years. The area is included in several FEMA declared Major Disaster Declarations. Hurricane Ivan caused severe damage within the MSA. The 2007 City of Pensacola budget includes the following economic information: “Since the hurricanes, the construction sector has soared to respond to rebuilding and repair needs. Unemployment was only 2.6 percent in April of 2006. Tourism has declined primarily due to a lack of rental units. Many of the rebuilding projects are complete, and tourism should pick-up. Retail sales have increased, and the area has benefited by an increase in the population due to displaced families relocating after last summer’s hurricanes.”

<b>Demographic and Economic Characteristics of Santa Rosa County Assessment Area</b>	
<b>Population</b>	
Total Population	117,743
Number of Families	33,577
Number of Households	43,845
<b>Geographies</b>	
Number of Census Tracts	19
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	11%
% Middle-Income Census Tracts	63%
% Upper-Income Census Tracts	26%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$48,144
2005 HUD-Adjusted MFI	\$49,800
<b>Economic Indicators</b>	
Unemployment Rate	2.4%
2000 Median Housing Value	\$98,649
% Households Below Poverty Level	10%

*Source: 2000 Census data and HUD updated income data.*

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending performance meets standards for satisfactory performance.**

The loan-to-deposit ratio is reasonable and compares adequately to similar banks. The concentration of loans in the AA exceeds standards for satisfactory performance.

For the borrower and geographic distribution tests, performance is based on lending in the Okaloosa County and Walton County AAs. The geographic distribution of loans does not carry significant weight since Okaloosa County does not have any low-income census tracts, and Walton County does not have any low- or moderate-income census tracts. The geographic distribution of residential real estate and commercial loans is excellent in the Okaloosa County AA. The borrower distribution of residential real estate loans is good in both the Okaloosa County AA and Walton County AA. Lending to businesses of different sizes is not as strong with a low penetration of loans to businesses with revenues less than \$1 million in the Okaloosa County AA and an adequate penetration in the Walton County AA. However, this analysis may not be reliable due to the high percentage of loans where revenue information was not available.

### **Loan-to-Deposit Ratio**

**FNBT has a reasonable loan-to-deposit ratio given the institution's size, financial condition, and assessment area credit needs.** FNBT's loan-to-deposit ratio averaged 68 percent for the

eight quarters since the last CRA evaluation. When compared with nine similar banks in the AA, performance is adequate. The similar banks had an average ratio of 83 percent for the same time period and their ratios ranged from 62 percent to 104 percent.

**Lending in Assessment Area**

**A substantial majority of loans were originated within the four AAs.**

<b>Table 1 - Lending in All Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	591	93	45	7	636	120,511	94	7,878	6	128,389
Home Improvement	55	96	2	4	57	2,847	99	19	1	2,866
Home Refinance	338	94	21	6	359	45,128	96	1,750	4	46,878
Commercial	54	93	4	7	58	20,891	89	2,637	11	23,528
Totals	1,038	94	72	6	1,110	189,377	94	12,284	6	201,661

*Source: data reported under HMDA, and sample of commercial loans*

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

**Lending performance to borrowers of different income levels and businesses of different sizes meets the standard for satisfactory performance.** Residential real estate lending is good in both the Okaloosa County and Walton County AAs. Commercial lending is not as strong, but is considered adequate with weak performance in Okaloosa County and adequate performance in Walton County. The bank has funded community development loans for the purpose of providing affordable housing in Walton County. These community development loans demonstrate the bank’s commitment to meet community needs through commercial lending, and help support overall adequate findings for commercial lending performance.

Residential Lending

For Okaloosa County, the distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels. The bank has excellent performance for home improvement loans to low-income borrowers. Strong performance was also noted for refinance loans to moderate-income borrowers. The bank’s performance in other areas is considered adequate after considering 10 percent of households live below the poverty level.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Okaloosa County</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
Home Purchase	17	2	20	14	24	23	39	54
Home Improvement	17	15	20	11	24	19	39	30
Home Refinance	17	9	20	20	24	24	39	41

Source: data reported under HMDA; U.S. Census data. Income information was not available for 7% of home purchase, 25% of home improvement and 6% of refinance loans.

The borrower distribution of residential real estate loans in Walton County is reasonable. The penetration of home improvement loans to low- and moderate-income borrowers is strong, as is the penetration of home refinance loans to moderate-income borrowers. Performance in other areas is considered adequate.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Walton County</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
Home Purchase	19	4	18	13	21	20	42	52
Home Improvement	19	17	18	35	21	26	42	18
Home Refinance	19	8	18	22	21	17	42	51

Source: data reported under HMDA; U.S. Census data. Income information was not available for 11% of home purchase, 4% of home improvement, and 2% of refinance loans.

FNBT has a small market presence in the Bay County AA and only extended 14 residential real estate loans in the AA during the evaluation period. An analysis of the borrower distribution would not be meaningful.

The borrower distribution for residential real estate loans in Santa Rosa County is reasonable. Santa Rosa does not carry significant weight in overall borrower distribution conclusions since most loans are made in the Okaloosa and Walton County AAs.

Commercial Lending

For the Okaloosa County AA, the penetration of commercial loans to businesses with revenues less than \$1 million is lower by both the number of loans and dollar amount of loans. Revenues are unknown for 50 percent of the bank loans, which reduces the reliability of this analysis.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Okaloosa County</b>			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown
Total			

% of AA Businesses	64	4	32	100%
% of Bank Loans in AA by #	30	20	50	100%
% of Bank Loans in AA by \$	11	57	32	100%

Source: Loan sample; Dunn and Bradstreet data.

Two community development loans demonstrate efforts to meet lending needs in Walton County. Two projects totaling \$498 thousand funded construction and permanent financing. Each loan was used to build a 10-unit apartment building in rural Walton County. Apartments will rent for an affordable \$500 per month and target low- and moderate-income tenants. Some of the units have HUD rent subsidies. The buildings are part of an existing complex.

The borrower distribution of loans to small businesses is adequate in Walton County. The percentage of loans to businesses with revenues of \$1 million or less is below the percentage of businesses in the same revenue category, but does show adequate responsiveness. A very large portion of the sampled loans do not have revenue information available.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Walton County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65	4	31	100%
% of Bank Loans in AA by #	40	15	45	100%
% of Bank Loans in AA by \$	29	37	34	100%

Source: Loan sample; Dunn and Bradstreet data.

Due to the limited market presence in Bay County and Santa Rosa County, we did not perform a commercial loans sample analysis by business revenue size.

### **Geographic Distribution of Loans**

**The geographic distribution of loans is excellent.** Performance for both commercial and residential real estate lending in the Okaloosa County AA is strong.

Geographic distribution conclusions are based primarily on lending in the Okaloosa AA. The Walton County AA does not have any low- or moderate-income census tracts. The level of lending in Bay County and Santa Rosa County is much lower, and does not have significant impact on overall conclusions. Therefore, no detailed geographic distribution information is included for these two areas.

### **Residential Lending**

The geographic distribution of residential real estate loans demonstrates excellent performance. Conclusions are heavily influenced on lending in Okaloosa County AA.

The geographic distribution of residential real estate loans exceeds the standard for satisfactory performance in Okaloosa County. The AA has no low-income census tracts, so performance is assessed based on lending in the moderate-income census tracts. FNBT's level of lending in moderate-income census tracts exceeds the percentage of owner-occupied housing units in these tracts for home purchase and home improvement loans. The level of lending in moderate-income census tracts for home refinance loans is adequate.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Okaloosa County</b>								
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 Purchase	0	0	6	7	74	75	20	18
Home Improvement	0	0	6	11	74	81	20	8
Home Refinance	0	0	6	3	74	78	20	19

Source: data reported under HMDA; U.S. Census data.

Walton County does not contain any low- or moderate-income census tracts, so performing a geographic dispersion analysis of residential real estate loans would not be meaningful.

The level of residential real estate lending in Bay County was low with only 14 loans, so a geographic dispersion analysis of residential real estate loans would not be meaningful.

The geographic dispersion in Santa Rosa County is reasonable. The AA does not have any low-income census tracts, and only a very small percentage of owner-occupied housing units are located in moderate-income census tracts. As noted earlier, performance in this AA does not carry significant weight.

### Commercial Lending

The geographic distribution of commercial loans in Okaloosa County is excellent. FNBT made 20 percent of the sampled loans in moderate-income census tracts, and that far exceeds the 10 percent of AA businesses located in the moderate-income census tracts.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Okaloosa County</b>								
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
Commercial	0	0	10	20	68	57	22	23

Source: Loan sample; D & B data.

The Walton County AA does not contain any low- or moderate-income census tracts, so a geographic distribution analysis of commercial lending was not performed for this AA.

Since Bay County and Santa Rosa County account for a small portion of lending, the geographic analysis of commercial lending was not performed in detail. No conspicuous lending gaps were identified.

## **Qualified Investments and CD Services**

**The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area(s) through community development investments, community development loans, and community development services.** A prior period investment is outstanding and is given bank-wide credit. The availability of banking products has a positive impact on the overall community development rating. Several deposit products help meet banking needs of low- or moderate-income people and small businesses. The branch distribution is reasonable and supplemented by a very large ATM network that helps make banking services available throughout the AAs. This is supplemented with community development services in Okaloosa and Walton Counties.

### *Bank-Wide Community Development Activity*

#### Community Development Investments

A qualifying prior period mortgage backed security for affordable housing in Florida is outstanding. The current balance is \$800,000, and this investment covers the entire state and is given bank-wide credit.

#### Services

Several deposit accounts help meet the banking needs of low- or moderate-income people and are available at all branches. The bank offers \$1.99 unlimited checking accounts, a preferred checking account, and the 50<sup>1st</sup> Club NOW checking product. These products offer no or reasonable fees with low minimum balance requirements. A reasonably priced small business checking account is also offered. In the Okaloosa AA, the Okaloosa \$aves account supports the community savings program, and promotes increased savings and financial education. The program primarily targets low- and moderate-income people. Branches are reasonably accessible, and the AAs do not contain many low- or moderate-income census tracts. In Bay County, the only branch is located in a moderate-income census tract. Branches are supplemented by a very large network of approximately 100 bank-owned ATMs.

### *Okaloosa County*

#### Community Development Services

Economic Development Council – A bank representative serves on the finance committee and provides financial services. The council works on projects that meet community development needs for small businesses.

Okaloosa \$aves – Bank personnel provide financial services through participating in this organization. The bank opens accounts for the organization’s members and waives account fees. This is a new organization with expected growth, and bank staff has participated in organizational meetings. Bank staff also participated in Money Camps during 2005 and 2006 that teach children financial skills. This organization is targeted to increase savings in the community.

Emerald Coast Marine Institute – A bank representative serves on the Board of Directors for this charter school, and is involved in providing financial services through these duties. The charter school primarily serves low- or moderate-income children, and serves to rehabilitate adjudicated children, and children with academic or behavioral issues.

### ***Walton County***

#### **Community Development Services**

Walton County Affordable Housing/SHIP Program – Bank staff help first time home-buyers apply for this grant program. The program provides down-payment and closing cost assistance to those in financial need.

#### **Responses to Complaints**

No complaints related to CRA lending performance were received during the evaluation period. This has a neutral impact on the overall CRA rating.

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

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