



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

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

PUBLIC DISCLOSURE

September 27, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Hemisphere National Bank
Charter Number 16776**

**2159 Coral Way
Miami, Florida 33145**

**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 **Hemisphere National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 27, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION RATING

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

Hemisphere National Bank's (HNB) CRA performance was evaluated using the small bank performance criteria. We analyzed the bank's lending activity for 1997, 1998, and year to date through June 30, 1999. The bank's last CRA evaluation was performed November 1, 1996. The bank was also rated "Satisfactory" at that examination.

HNB's satisfactory CRA performance is supported by:

- < A reasonable average loan to deposit ratio since the last CRA examination;
- < A majority of the bank's loans being in their assessment area, and;
- < A reasonable distribution of loans by geography and to individuals of different income levels and businesses of different sizes, based on the demographics surrounding the branch offices.

HNB has not received any complaints regarding its CRA performance since the last evaluation.

Hemisphere National Bank's performance in all assessment categories meets the standards for Satisfactory Performance.

DESCRIPTION OF INSTITUTION

HNB is a community bank headquartered in Miami-Dade County. Its main office is located just east of the City of Coral Gables, in a well established, mixed use neighborhood. Three other branches are well dispersed around the county, with one branch in Downtown Miami, a central business district of the city and about five miles east of the main office. The other two offices are at opposite ends of the county, in the town of Aventura, just south of the Dade-Broward line, and near to The Falls, an upscale commercial shopping/entertainment complex in South Dade County.

Two of the bank's branches are located within upper income census tracts and its main branch is located in a middle income tract. Only the Downtown Branch is located in a low income area, with a high concentration of retail businesses around it. The area immediately surrounding each of these offices also reflects the same income profile.

There are no legal impediments that affect the bank's ability to meet the credit needs in its assessment area. As of June 30, 1999 the bank had total assets of \$203 million, with \$141 million in loans and \$183 million in deposits. The loan portfolio consists primarily of commercial and commercial real estate loans (90%). Residential mortgage loans, consumer-type installment loans, and other loans make up the remaining ten percent.

The bank offers an array of banking products and services typical of a Miami community bank. The bank caters to small businesses and entrepreneurial individuals. In 1997 the bank's ownership formed a strategic alliance with six other banks in five separate Latin American countries who became minority shareholders of the bank. This new relationship brought with it foreign deposits and allowed HNB to expand their lending activities.

Initially their strategy was to have a 50/50 mix between domestic and international lending. Concentrations of the latter would be in trade financing to the Latin American market to take advantage of the knowledge and expertise of the alliance members. But due to recent economic developments in Latin America, HNB has shifted its focus more towards the domestic market and has strengthen its management ranks in the small business lending area.

In this capacity HNB offers various specialized loan products to small businesses including government-assisted, or guaranteed loan programs. HNB is an approved lender under the Small Business Administration (SBA), Florida Export Finance Corporation (FEFC) and Export-Import Bank of the United States (EXIMBANK) loan programs. Under these last two programs, HNB can facilitate the financing of U.S. exports by small local firms through export credit insurance and loan guarantees up to 90% of principal and interest.

The bank also offers a comprehensive program for small businesses to better manage their accounts receivables. This program, called "Business Manager" assists small businesses to collect receivables more efficiently, while providing a variety of reports to help them manage customer relationships better. This program also helps the businesses with their cash flow management by purchasing accounts receivables at a small discount. As of the first quarter of 1999, HNB had approved 20 of these relationships for a total of \$10 million in credit extended to small merchants.

DESCRIPTION OF ASSESSMENT AREA

HNB's assessment area is comprised of the entire Metropolitan Statistical Area (MSA) of Miami-Dade County. This assessment area meets the definition of the CRA and does not reflect illegal discrimination or arbitrarily exclude low or moderate income geographies.

The Miami-Dade County MSA is comprised of 267 census tracts of which 35% are considered low and moderate income. Another 36% are middle income, and 28% are upper income. Of the 692 thousand households within the MSA, 29% are designated low and moderate income while 38% and 33% are designated middle and upper income, respectively. Almost 18% of all households within the MSA are below the poverty level.

For purposes of this analysis, low and moderate income is defined as having median family income of less than 80% of the median family income for the entire MSA. Middle and Upper income geographies have median family income above 80% of the MSA's median income. These ratios are based on the 1990 U.S. Census weighted average median family income for the Miami-Dade County MSA. This figure totaled \$31,113 and was updated in 1999 to \$42,400.

Miami-Dade County's economy is stable and competition from other financial institutions is strong, primarily from larger community banks as well as the local affiliates of regional and multinational banks. There are more than 150 banks, savings and loans associations, and international banks in the area. Major industries include tourism, import/export business, financial services, health care, and real estate development. The largest employers in the MSA include: The Dade County Public School system, the Metro-Dade County and State of Florida governments, and Publix Supermarkets. There has been significant population growth in the last few years, especially from Latin America and the Caribbean.

A review of 3 community contact reports conducted by bank regulators during 1998 indicate a need for economic development, and small business lending in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

HNB's quarterly average loan to deposit ratio between December 1996 and June 1999 is considered satisfactory at 59%. This does not compare favorably to similarly sized institutions around the entire nation. This "national" peer group had an average loan to deposit ratio of 69 percent over the same period. But an upward trend in HNB's ratio is noted in the more recent half of this period. Due to the new strategic direction that the bank has undertaken, for the five quarters between March 1998 and 1999, the bank averaged about 65 percent in loans to deposits. This is more in line with the "national" peer's average and reflects the bank's new emphasis on increased lending due to its strategic alliances.

A comparison was also made of the bank's loan to deposit ratio for this more recent period to the average of four similarly sized institutions operating in the bank's assessment area. This "local" peer group's average quarterly loan to deposit ratio was just over 52 percent over the 1998/1999 period. This is a more meaningful analysis since these banks have similar lending strategies as HNB and compete for the same type of customers within the same trade area.

Lending in the Assessment Area

A majority of the loans that HNB originated during the evaluation period were made within their assessment area. As shown by Table 1 below, as of June 30, 1999, HNB had generated over 60 percent of their loans from within their assessment area. In dollar terms, the percentage is much lower which is reflective of the international lending that dominated the bank's credit activities during 1998. International loans are typically larger credits, granted to correspondent institutions outside of the assessment area. HNB's loan distribution in and out of the assessment area is as follows:

Table 1 Distribution of Loan Originations In/Out of Assessment Area (AA) All Types of Loans						
	Total Originations		Within AA			
	Number of Loans	Dollar Amt. (000's)	# of Lns	%	Dollar Amt. (000's)	%
1997	143	\$18,533	128	89%	\$ 8,929	48%
1998	295	\$123,070	142	48%	\$34,162	28%
YTD 6/30/99	104	\$76,391	73	70%	\$30,628	40%
Total	542	\$217,994	343	63%	\$73,719	34%

Source: Bank-generated loan distribution reports.

The strong influence of the bank's international lending activities is also apparent on the geographic distribution of the current loans outstanding. As of the date of this evaluation, the bank had assigned a geographical code to approximately \$103 million of the \$141 million in total loans it had in the books. Of these, approximately \$60 million were coded as foreign loans, with another \$34 million located

within the bank's assessment area. Based on the total amount of loans geocoded, those within the bank's assessment area represent only 33 percent. But, if we analyze the distribution of domestic loans only, then those made within the HNB's assessment area represent 82 percent of the total domestic loans outstanding.

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

HNB's loans are reasonably distributed among borrowers of different income levels and businesses of different sizes. This conclusion takes into consideration the bank's international orientation during the evaluation period and its strategic direction.

They have not arbitrarily excluded any income levels in extending credit and the number of loans made to low- and moderate-income borrowers is consistent with the percentage of low- and moderate-income households within the assessment area.

Table 2 below depicts the bank-reported breakdown of its consumer lending among borrowers of different income levels during the evaluation period:

Borrower Income Distribution		Table 2 Distribution of Consumer Loans By Borrower Income Level							
		1997		1998		YTD 6/30/99		Total	
		# Lns	\$ (000's)	# Lns	\$ (000's)	# Lns	\$ (000's)	# Lns	\$ (000's)
Low Income	8	\$ 34	10	\$ 51	2	\$ 77	20	\$ 162	
Moderate Income	7	\$ 67	6	\$ 35	0	\$ 0	13	\$ 102	
Middle Income	18	\$ 160	2	\$ 36	0	\$ 0	20	\$ 196	
Upper Income	32	\$ 1,035	22	\$ 846	17	\$ 1,086	71	\$ 2,967	
Total	65	\$ 1,296	40	\$ 968	19	\$ 1,163	124	\$ 3,427	

Source: **Bank-generated loan distribution reports.**

Based on above figures, from 1997 through June 30, 1999, HNB made 27 percent of its consumer loans to low- and moderate-income borrowers. That percentage is comparable to the percentage of low- and moderate-income households in the MSA (29%). The small percentage difference is attributed to the location of their branches, which are surrounded by middle- and upper-income geographies. Borrowers residing in those areas, which are naturally serviced by the bank, tend to be of

middle- and upper-income categories. This same phenomenon is also reflected in the higher percentage of consumer loans to upper-income borrowers (57%) than the proportion of upper-income households (33%) in the entire MSA.

The bank's distribution of loans to businesses of different sizes is also reasonable. Reports compiled by the bank on business lending activity were used to analyze their distribution. Our analysis was conducted based on business borrowers' revenue, using the standard definition of a small business as one having annual revenues under \$1 million.

Based on the loan activity reports, a majority of the business loans made during the evaluation period were to borrowers classified as small businesses. This is consistent with the bank's business strategy and target market.

The bank recorded the borrower's revenue in 172, or 85 percent of the 203 business loans reported as having been made during this period. These were the loans that were used to draw conclusions as to the level of HNB's small business lending. Our analysis showed that 52 percent of those business loans were made to small businesses, using the above definition.

Geographic Distribution of Loans

Loan penetration is noted in all of geographies within the assessment area, including low- and moderate-income census tracts. Considering the bank's orientation and the location of its branches, they show a reasonable dispersion of loans among the different income categories of the geographies within the assessment area.

Table 3 below shows the geographic distribution, by income category, of loans generated by HNB since their last CRA evaluation:

Table 3 Geographic Distribution of Total Loans Originated Within AA All Loan Types						
Census Tract Designation	1997		1998		YTD 6/30/99	
	Number of Loans	Amount (000's)	Number of Loans	Amount (000's)	Number of Loans	Amount (000's)
Low Income	8	\$464	17	\$4,473	10	\$2,879
Moderate Income	22	\$1,359	26	\$8,563	20	\$9,916
Middle Income	41	\$1,926	35	\$4,447	14	\$6,369
Upper Income	57	\$5,180	64	\$16,679	29	\$11,464

Source: Bank-generated loan distribution reports.

Based on the above figures, aggregate percentages are drawn for the total distribution of loans among the different census tracts, by income category. Table 4 shows the aggregate results by income level, in relation to the total loan production during the evaluation period:

Table 4 Percentage Distribution of Lending Within AA Aggregate for Evaluation Period by Income Designation		
Census Tract Designation	Number of Loans %	Dollar Amount %
Low Income	10%	11%
Moderate Income	20%	27%
Middle Income	26%	17%
Upper Income	44%	45%

The table above shows reasonable loan penetration to low- and moderate-income census tracts given the assessment area demographics. For example, the bank has a 30 percent penetration in low- and moderate-income census tracts within its assessment areas. Geographies designated as low- and moderate-income represent 35 percent of the tracts in the MSA. In dollar terms, the chart shows that 37 percent of the dollars lent out by HNB for this period went to benefit low- and moderate-income geographies within the MSA.

The above chart does show a higher penetration in middle- and upper-income tracts than the MSA proportion in these income categories. But this is reasonable given that the majority of the bank's branches, where loans are generated, are located in middle- and upper-income tracts.

Response to Complaints

HNB has not received any complaints regarding its CRA performance.

Compliance with Antidiscrimination Laws and Regulations

Concurrently with this evaluation, we performed a Fair Lending review. Our scope was to assess the bank's level of compliance with anti-discriminatory laws and regulations. We reviewed adverse action notices issued for consumer and business loans to ascertain the bank's level of compliance with the Equal Credit Opportunity and Fair Credit Reporting Acts.

We noted no evidence of discrimination in the bank's lending practices. The bank is in substantive compliance with the Equal Credit Opportunity and Fair Credit Reporting Act.