



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 23, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Harbor National Bank
Charter Number 24624

1503 Old Towne Road
Charleston, SC 29407

Office of the Comptroller of the Currency

CAROLINAS FIELD OFFICE (CHARLOTTE)
212 South Tryon Suite 700
Charlotte, NC 28281

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 major factors that support this rating include:

- The bank's quarterly average loan-to-deposit ratio is more than reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors;
- A substantial majority of the bank's loans are made within its assessment area (AA);
- The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among businesses of different sizes by the bank;
- The bank's geographic distribution of loans within its AA reflects excellent dispersion throughout the AA; and
- The bank has received no complaints about its performance in helping to meet the credit needs of its AA.

SCOPE OF EXAMINATION

We performed a full-scope evaluation of Harbor National Bank's (HNB) performance using small bank Community Reinvestment Act examination procedures. Our review covered the bank's CRA performance from the date of its opening, February 14, 2006, through December 31, 2008. Based upon the bank's business strategy and the loans originated or purchased during the evaluation period, we determined that small business loans are the bank's primary loan product. As a result, we reviewed a random sample of 20 small business loans that the bank originated since its opening in February 2006 through December 2008.

DESCRIPTION OF INSTITUTION

HNB is a \$196 million locally owned community bank headquartered in Charleston, South Carolina. The bank was established on February 14, 2006, as a full service, intrastate institution, offering a standard array of traditional loan and deposit products. The bank's website at www.harborbankgroup.com provides a listing and description of all deposit and loan services. HNB is a wholly owned subsidiary of Harbor Bank Group, a one-bank holding company established in August 2005. The bank and the holding company are both located in Charleston County. Neither the bank nor the holding company has any other subsidiaries. There has been no merger or acquisition activity during the evaluation period.

HNB has a main office and two branches. The main office is located in a middle-income census tract in Charleston County. The Meeting Street branch and the Mount Pleasant branch are both located in upper-income census tracts in Charleston County. The main

office and the Mount Pleasant branch are equipped with drive through banking facilities. Extended banking hours are available during the business week at all three locations.

As of December 31, 2008, HNB reported \$177 million in net loans (which is 90% of total assets), \$152 million in total deposits, and Tier One capital of \$27 million. The bank's loan portfolio consists of residential real estate loans (26%), commercial and commercial real estate loans (47%), construction and development loans (26%), and consumer loans (1%). According to the bank's strategic plan, small to medium sized businesses are the bank's primary loan product.

Numerous national, state, and savings banks, as well as branches of several regional institutions, provide major deposit and lending competition. According to the Federal Depository Institution Corporation's (FDIC) Market Share Report, as of June 30, 2008, HNB ranked 14 out of 30 institutions in the Charleston-North Charleston MSA with 1.40% of deposits. Competitors in this market include Wachovia Bank, NA, ranking first with 24.94% of deposits and Bank of America, NA, ranking second with 13.40% of deposits. There are no known legal, financial or other factors impeding HNB's ability to help meet the needs of its community. This is HNB's first CRA examination since its opening in February of 2006.

DESCRIPTION OF ASSESSMENT AREA

HNB has defined the counties of Charleston, Dorchester, and Berkeley as its AA. These are located in the lowcountry region of South Carolina, anchored by the cities of Charleston, North Charleston, and Summerville. The bank's AA includes 117 census tracts. It is comprised of 11 low-income tracts (9%), 29 moderate-income tracts (25%), 48 middle-income tracts (41%), and 29 high-income tracts (25%). All of the census tracts are located in the Charleston-North Charleston, South Carolina (SC) Metropolitan Statistical Area (MSA) #16700. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2000 US Census data, the population of the AA is 549,033. The AA contains 142,118 families and 207,816 households. Demographics indicate that approximately 21% of the families are categorized as low-income, 18% as moderate-income, 21% as middle-income, and 40% as upper-income. Updated 2008 median family income was \$58,400 for the AA and the median value of a home was \$121,626 for the AA. There are 232,985 housing units with owner-occupied units at 59%, rental-occupied units at 30%, and vacant-housing units at 11% in the AA. Approximately 28,427 or 14% of households are below the poverty level.

The economy for the AA has slowed somewhat, reflective of the nation's economic slowdown over the past year. According to the Bureau of Labor Statistics, the December 2008 unemployment rate for the Charleston-North Charleston, SC MSA was 7.40% compared to the state unemployment rate of 8.90% and the national unemployment rate of 7.20%. The December 2008 unemployment rate for the individual counties of Charleston, Dorchester, and Berkeley was 6.90%, 7.90%, and 8.20% respectively. According to the 2000 US Census data, there were 45,842 non-

farm businesses located in the MSA, of which 10,998 are located in low- to moderate-income census tracts. Approximately 30,207 or 66% have revenues less than \$1 million. The AA is diverse with government, retail, and service industries providing the majority of employment opportunities. According to the November 2008 Moody's Economy Precis Metro report, the top five employers for the AA included the US Navy, the Medical University of South Carolina, the Charleston Air Force Base, the Roper St. Francis Healthcare, and the Piggly Wiggly Carolina Company, Inc.

During this evaluation, we made a community contact to discuss the credit needs of the AA. The non-profit agency determined there is an overall credit need for affordable housing for low- to moderate-income individuals and families. Affordable housing is lacking in the AA due to rising real estate costs, development costs, energy costs, and limited developable land. The contact indicated a need for local lenders to donate home sites for the development/rehabilitation of affordable housing, and to provide construction financing for affordable housing development and rehabilitation projects.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is "Outstanding". This conclusion is based upon the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. All criteria of the specific lending tests are documented below:

Loan-to-Deposit Ratio

HNB's LTD ratio is outstanding. We reviewed the quarterly average LTD ratios for the 11 quarters beginning March 31, 2006 through September 30, 2008, inclusive. The bank's average LTD ratio during this period was more than reasonable at 115%. HNB's LTD ratio ranks first among the bank's peer group. The peer group consisted of similarly-sized institutions in South Carolina. During this 11 quarter period, the bank's LTD ranged from a low of 79% and a high of 159%. The peer average was 79%, with peer ratios ranging from a low of 61% to a high of 109%.

Lending in Assessment Area

The bank's lending in its AA is outstanding. A substantial majority of HNB's primary loan products were originated within the bank's AA. During the evaluation period, 94% of all loans originated by the bank were made within the bank's AA. Of the 20 small business loans sampled for our review, all were located within the bank's AA.

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

For small business lending, demographics indicate that 66% percent of the businesses in the AA had revenues of \$1 million or less. HNB's distribution of loans sampled reflects excellent penetration to small businesses. The sample of 20 loans indicates that 90% of the number and 77% of the dollar volume of small business loans were made to businesses with revenues of \$1 million or less. HNB's distribution of loans to

small businesses exceeds the demographic ratios. Please refer to Table 1 below.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66%	5%	29%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	77%	23%	0%	100%

Source: HNB loan sample; 2008 Dunn and Bradstreet data.

Geographic Distribution of Loans

Demographics indicate that 5% of the businesses were located in low-income tracts, 19% were located in moderate-income tracts, 45% were located in middle-income tracts, and 31% were located in upper-income tracts. Based on our small business loan sample of 20 loans in the AA, HNB’s performance in low- and moderate-income tracts exceeds the percentage of businesses in those tracts. This geographic distribution of loans reflects excellent dispersion throughout the AA. Please refer to Table 2 below.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial Loan Sample	5%	10%	19%	30%	45%	30%	31%	30%

Source: HNB loan sample; 2008 Dunn and Bradstreet data.

Responses to Complaints

HNB did not receive any CRA related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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