



## **PUBLIC DISCLOSURE**

July 08, 2014

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

Commonwealth National Bank  
Charter Number 16553

2214 St. Stephens Road  
Mobile, AL 36617

Office of the Comptroller of the Currency

3838 North Causeway Blvd., Suite 2890  
Metairie, LA 70002-8105

**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:**

- Commonwealth National Bank's loan-to-deposit ratio is reasonable relative to the bank's size, competition, and financial condition.
- A significant majority of loans originated by Commonwealth National Bank were made within its assessment area (AA).
- Commonwealth National Bank exhibits a reasonable penetration of loans to borrowers of different incomes and businesses of different sizes.
- Commonwealth National Bank exhibits reasonable dispersion of loans within this AA.
- Commonwealth National Bank did not receive any Community Reinvestment Act complaints during the review period.

**SCOPE OF EXAMINATION**

The assessment of Commonwealth National Bank's CRA performance was evaluated using the Interagency Small Bank CRA procedures, which require the analysis of the bank's primary lending products. As discussed in the table below, the bank's loan portfolio is primarily comprised of commercial loans, at 47%, followed by residential real estate loans at 22%. Total residential real estate lending, combining construction and farm, 1-4 residential properties, and multifamily, comprises 32% of the bank's portfolio. Consequently, the bank focuses its lending on both commercial and residential products.

<b>Commonwealth National Bank Loan Portfolio</b>		
<b>Loan Category</b>	<b>Dollars (000)</b>	<b>Percentage</b>
Construction and Farm	1,601	06%
1-4 Residential Properties	5,446	22%
Multifamily	1,010	04%
Non-Farm / Non-Residential	11,666	47%
Commercial and Industrial	3,736	15%
Consumer	1,440	06%
<b>Total</b>	<b>24,899</b>	<b>100%</b>

Source: Call Report Data as of 12/31/2013

The bank's primary business strategy is to originate residential mortgage and commercial loans within its AA. The bank is a Home Mortgage Disclosure Act (HMDA) reporter; therefore, we utilized HMDA data to evaluate the bank's loan performance. We analyzed HMDA loans for the years 2012 and 2013. We also sampled the bank's commercial loan portfolio for years 2012 and 2013, with a total of 23 loans sampled to evaluate the bank's small business lending. When data that is more recent is needed for comparative purposes, such data is used and the applicable date noted. The

previous CRA examination was conducted January 20, 2009 and covered a review period from January 1, 2006 through December 31, 2008. This examination determined that the bank satisfactorily met the credit needs of its community. Prior to the current CRA evaluation, we conducted a standalone data integrity HMDA review.

## **DESCRIPTION OF INSTITUTION**

Commonwealth National Bank is a minority-owned full-service community bank that is wholly-owned by CNB Bancorp Inc., of Alabama. The bank has total assets of \$58 million and operates three branches, with the main branch being located in Mobile, Alabama. The city of Mobile is in the Mobile Metropolitan Statistical Area (MSA) and is the county seat of Mobile County. The City of Mobile is the third most populous city in the state of Alabama, the largest in Mobile County, and one of the largest cities on the Gulf Coast. Mobile is located at the head of Mobile Bay, and the port of Mobile continues to play a vital role in the health of the city and surrounding areas.

The Mobile economy continues to recover, but is not likely to see a significant acceleration in job growth in the short term. The unemployment rate remains high at 8.1% as of June 30, 2014, which is higher than the State of Alabama and the national unemployment rates at 6.8% and 6.1%, respectively. Most job creation will be in construction and manufacturing, with the world's largest aerospace company and the leading manufacturer of commercial jetliners and military aircraft poised to open a facility in Mobile in the near future. The Port of Mobile also continues to be a source of employment and economic growth, but nearby ports such as New Orleans, will continue to be competition. Housing prices continue to be depressed and the city will remain on the downside of the national housing rebound in the short term.

All of the bank's branches are located in Mobile County and in low-income census tracts. The main branch is located in census tract 0006.00, with the remaining two branches located in low-income census tracts 0012.00 and 0027.00. The Prichard Branch (drive-thru operation) was closed on December 23, 2011. No other branches have opened or closed since the previous CRA examination. Banking hours reasonably meet the community needs with lobby hours Monday through Friday, extended Friday hours, and motor banking. The bank operates with one automated teller machine (ATM) at the Springhill Avenue branch. Additionally, the bank added 28 Commonwealth National Bank Branded ATMs in 2013 through a lease arrangement with Payment Alliance, a Rite Aid Pharmacy Agent. The bank offers a wide range of deposit and loan products and no significant differences exist between locations. Primary competition comes from 19 national and state-chartered community banks and credit unions located in and near the bank's AA, including several branch facilities of regional and national banks. No financial or legal impediments exist that prevent Commonwealth National Bank from meeting the credit needs of the community.

## DESCRIPTION OF ASSESSMENT AREA(S)

The bank's AA meets regulatory guidelines by including whole geographies and not arbitrarily excluding low- and moderate-income areas. The AA is designated as Mobile County, Alabama, which is located in the Mobile, Alabama MSA. Further detail regarding the bank's AA is discussed below and is based on 2010 census data.

<b>ASSESSMENT AREA DEMOGRAPHIC AND ECONOMIC DATA</b>	
<b>Population</b>	412,992
Number of Families	104,324
Number of Households	153,302
<b>Geographies</b>	
Number of Census Tracts	113
Low-Income Census Tract	12
Moderate-Income Census Tract	34
Middle-Income Census Tract	41
Upper-Income Census Tract	26
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$53,296
2010 HUD-Adjusted MFI	\$52,400
<b>Economic Indicators</b>	
Unemployment Rate in May 2013	7.3%
2010 Median Housing Value	\$124,328
% of Households Below Poverty Level	18.7
% of Vacant Housing Units	12.8

*Source: 2010 census data*

We also considered information from one community contact made in the city of Mobile during the evaluation. The primary credit need in the community was identified as small business lending. According to this contact, local banks have been active in helping meet the credit needs of the AA.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its AA is satisfactory. Our conclusion is based on a reasonable loan-to-deposit ratio, a substantial majority of loans that were made in the bank's AA in light of all performance context factors, a reasonable borrower and small business distribution of loans within the AA, and a reasonable geographic dispersion of loans.

To assess the bank's performance under the lending test, we reviewed residential real estate mortgage lending activities for the year 2012 and 2013 using HMDA reportable loan data. We also reviewed a random sample of 23 loans from the commercial loan portfolio for the same years.

## Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) is reasonable given the credit needs of the AA and the bank's size, financial condition, and location. This determination is based on the quarterly LTD ratios from March 30, 2009 to March 31, 2014 that averaged 47.08%. During this evaluation period, the bank's LTD ratio ranged from a low of 40.80% to a high of 51.82%. While the loan-to deposit ratio could be considered low, it must be noted that there is significant competition in the bank's AA for deposit and lending opportunities. A review of the market share within the AA reveals that the five largest banks command 78.86% of the total market share for deposits. These banks are either regional or national banks that have a significant presence in the area. Combined, these five banks have a total of 75 branches within the AA. The ten largest banks command over 90% of the market share and operate with 97 branches in the AA.

Management considers the four banks shown in the following table to be its competitors, as all actively offer residential loan products, and have at least one branch location within the same boundaries of the bank's AA. The LTD ratio for these peer banks was 74.70%, which is significantly higher than the bank's average LTD ratio during the same time period of 67.55% to 86.56%.

Institution	Assets – As of June 30, 2013 (in thousands)	Average LTD
Commonwealth National Bank	\$58,945	47.08%
Bay Bank	\$77,976	75.06%
Merchants Bank	\$206,484	67.55%
Century Bank	\$255,001	69.61%
Community Coast Bank	\$644,974	86.96%

Source: Call Reports

## Lending in Assessment Area

The bank originated a substantial majority of loans within its AA during the review period. As shown in the following table, 91% of the bank's loans by number and 94% by dollar amount were made in the bank's AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	5	100	0	0	5	571	100	0	0	571
Home Improvement	17	94	1	6	18	375	97	10	3	385
Refinance	10	100.00	0	0	10	473	100	0	0	473
Commercial	19	83	4	17	23	1,485	90	168	10	1,653
Totals	51	91	5	9	56	2,904	94	178	6	3,082

Source: 2012 and 2013 HMDA Data, Commercial Loan Sample

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

Lending to borrowers of different income levels for residential real estate loans in the AA reflects a reasonable penetration, given the bank’s performance contexts. While the bank did not make any home purchase loans in the low-income census tracts, the amount of refinanced residential real estate loans was consistent with the percentage of families in the low-income census tracts. Additionally, the volume of home improvement loans exceeded the percentage of families in the low-income census tracts. While the bank did not make any home purchase or home improvement loans in the moderate-income census tracts, the level of refinanced residential real estate loans significantly exceeded the percentage of families in the moderate-income census tracts.

While it appears that the bank has very poor penetration to low- and moderate income borrowers for certain loan types, it is important to note the average median house value is \$124,328, and that 19% of the population lives below the poverty level. Additionally, the weighted average of median family income is \$53,296. It would be difficult for people at this income level to afford such relatively high cost of housing.

<b>Borrower Distribution of Residential Real Estate Loans in AA</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	23.24	0.00	16.71	0.00	19.49	0.00	40.56	100.00
Home Improvement	23.24	25.00	16.71	0.00	19.49	93.75	40.56	31.25
Refinance	23.24	20.00	16.71	40.00	19.49	10.00	40.56	30.00

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

Lending to small businesses with revenues of less than one million in the bank’s AA reflects a reasonable penetration, given the lending opportunities in the AA and the bank’s performance context. The gross annual revenues were not available for two of the loans sampled, and four loans were outside of the AA.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	71.75	5.04	23.21	100%
% of Bank Loans in AA by #	68	21	11	100%
% of Bank Loans in AA by \$	82	15	3	100%

Source: Loan sample; Dunn and Bradstreet data.

### Geographic Distribution of Loans

The geographic distribution of residential loans originated reflects reasonable dispersion across the AA. The bank’s lending in the 12 low-income census tracts for home purchase, home improvement, and refinances is significantly greater than the percentage of owner occupied housing within the AA. Home improvement and refinances in the 34 moderate-income census tracts likewise is significantly greater than the percentage of owner occupied housing within the AA. The bank did not make any home purchase loans in the moderate-income census tracts during the period of review. The bank’s geographic distribution of loans meets the standard for satisfactory performance.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
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	4.02	20.00	19.63	0.00	40.72	40.00	35.63	40.00
Home Improvement	4.02	11.76	19.63	35.29	40.72	23.53	35.63	29.41
Refinance	4.02	10.00	19.63	20.00	40.72	30.00	35.63	40.00

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

The geographic distribution of commercial loans originated in the bank’s AA reflects excellent penetration throughout the AA. The bank exceeded the percentage of businesses in both the low- and moderate-income census tracts by a considerable amount. Of the 19 commercial loans made in the AA, the geographic distribution is as follows:

Table 3A - Geographic Distribution of Loans to Businesses in AA								
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
	10.53	21	29.82	48	35.96	5	22.81	26

Source: Loan sample; Dunn and Bradstreet data.

### Responses to Complaints

The bank received no consumer complaints pertaining to its performance in helping to meet the credit needs within the AA since the previous CRA Performance Evaluation.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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