

# **PUBLIC DISCLOSURE**

June 23, 1997

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Southeastern Bank of Florida  
06120011

Alachua, Florida

Federal Reserve Bank of Atlanta  
104 Marietta Street, N.W.  
Atlanta, Georgia 30303

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the 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 Southeastern Bank of Florida prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of June 23, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

Southeastern Bank of Florida is primarily a small business lender. Management has defined the bank's assessment area as the counties of Alachua and Nassau. The bank has a reasonable loan-to-deposit ratio, and a substantial majority of the loans originated are within the assessment area. Approximately 99 percent of the consumer and small business loans sampled during the examination are in the assessment area. Lending to borrowers of different incomes is consistent with the assessment area's demographic composition. A substantial majority of the small business loans are for amounts of \$100,000 or less. The geographic distribution of lending within the assessment area is satisfactory. The bank has not received any CRA-related complaints since the previous examination.

## DESCRIPTION OF INSTITUTION

Southeastern Banking Corporation is a bank holding company headquartered in Darien, Georgia. Its two subsidiaries, Southeastern Bank and Southeastern Bank of Florida, operate full-service banking offices in southeast Georgia and in northeast and north central Florida. Southeastern Bank of Florida, a state banking association incorporated under the laws of the state of Florida, operates from its main office in Alachua and its branch offices in Callahan, Gainesville, Hilliard, Jonesville, and Yulee. The Gainesville and Jonesville branches are in Alachua County (as is the main office). The other three branches, which were purchased from another institution in late February 1996, are in Nassau County. The bank reported total assets of \$74.5 million on the March 31, 1997 Consolidated Reports of Condition and Income. The bank provides traditional deposit and credit services to individual and corporate customers.

Southeastern Bank of Florida offers a wide variety of credit products to meet community credit needs, focusing on loans to small businesses<sup>1</sup> and consumers. The bank does not discourage other types of lending. Management reviews the bank's products and services periodically to determine their appropriateness. The bank offers the following types of credit: residential real estate loans, home improvement and other consumer loans, commercial real estate loans, commercial loans, and small business and community development loans. A review of the loan portfolio revealed that the bank offers and extends all types of credit listed.

Within the bank's assessment area are eight other banks and various other financial entities including finance companies, insurance companies, and credit unions. The asset sizes of these banks range from \$29 million to \$40 billion. Though term and rates may vary, the banks offer essentially the same credit products.

The composition of the bank's loan portfolio according to the March 31, 1997 Consolidated Reports of Condition and Income is as follows:

<sup>1</sup>Small businesses are those businesses with gross annual revenues of less than \$1 million.

DESCRIPTION OF INSTITUTION (CONTINUED)

LOAN TYPE	PERCENTAGE
Construction and development	6.5%
Secured by one- to four-family dwellings	14.1%
Other real estate:	
Farmland	4.8%
Multifamily	1.7%
Nonfarm nonresidential	35.8%
Commercial and industrial	25.9%
Loans to individuals	10.4%
All other	.8%
Total	100.0%

As indicated in the table above, the majority of loans made are nonfarm nonresidential loans, followed by commercial and industrial loans. Loans secured by one- to four-family dwellings represent 14.1 percent of the loan portfolio; however, only 33 loans reportable under the Home Mortgage Disclosure Act (HMDA) were made during 1996. The demand for residential loans has been minimal because the only type of residential loan product offered is a loan with a five-year term, amortized over 25 years, with a balloon payment. Demand in the Nassau County area has centered on construction loans, which seems consistent with the bank's lending strategy. Recently, the bank has been working with several secondary market originators to offer more competitive rates; however, most of the bank's construction borrowers that want long-term loans usually have a take-out commitment from the larger banks in the area. The small business loans made by the bank correspond to the loan demand of those businesses located in the bank's service area.

The bank participates as a mortgage lender in Home Ownership Possibilities for Everyone (H.O.P.E.), an affordable housing program in the Gainesville area. Southeastern Bank of Florida also is a participant in the Florida State Housing Initiative Partnership (S.H.I.P.) program, which is also an affordable housing program.

Southeastern Bank of Florida received a satisfactory CRA rating at its previous evaluation as of February 6, 1996.

## **DESCRIPTION OF ASSESSMENT AREA: ALACHUA AND NASSAU COUNTIES, FLORIDA**

The bank has defined its assessment area as Alachua County and Nassau County, which are not contiguous counties. The Nassau County portion of the assessment area was added when the bank acquired the three branches in that county in early 1996. As already mentioned, Southeastern Bank of Florida operates three offices in Alachua County. The main office is located on Interstate-75 in the city of Alachua, which covers an area of 30 square miles. One branch is in Gainesville, the largest city in the county. Gainesville is about 15 miles south of Alachua and occupies 32 square miles. The University of Florida is located in Gainesville and is the major employer in the county. The Jonesville branch is in Newberry, which is about 17 miles west of Gainesville. Alachua County constitutes the Gainesville Metropolitan Statistical Area (MSA).

According to the 1990 census data, Alachua County's population was 181,596. Alachua County contains 28 census tracts. 4 (14.3 percent) are low-income census tracts; 8 (28.6 percent) are moderate-income census tracts; 9 (32.1 percent) are middle-income census tracts; and 7 (25.0 percent) are upper-income census tracts. All of the low- and moderate-income census tracts are in the Gainesville area. The city of Alachua and surrounding areas are primarily in middle- and upper-income tracts.

1990 census data showed a total of 79,022 housing units in Alachua County. 48.9 percent were owner-occupied, 41.3 percent were renter-occupied, and 9.8 percent were vacant units. 9,650 (25 percent) of the owner-occupied units were located in low- and moderate-income census tracts. Four of these census tracts consist primarily of the University of Florida campus and have only 751 owner-occupied units. The majority of the population in these census tracts live in student housing or some form of university housing. One low-income census tract, with approximately 731 owner-occupied units, was where the bank's Hawthorne Road branch was located. This branch closed in the first quarter of 1997 because of economic reasons and had very low loan and deposit activity. The Gainesville branch is approximately three miles from Hawthorne Road.

Competition for loans in the Gainesville area is intense. The larger banks seem to have an advantage in the residential mortgage loan market because of their ability to offer better terms and rates. Because the University of Florida has such a large presence in Gainesville, many of the tracts contain minimal owner-occupied housing, and residential lending opportunities are limited. Competition for small business loans has increased.

## DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

The bank's other three branches are in Nassau County in northeast Florida. As previously stated, these branches are located in the cities of Callahan, Hilliard, and Yulee. Hilliard and Callahan are two of the largest cities in Nassau County. The county also includes Fernandina Beach, which is the largest city and the county seat. The majority of the county's major employers are in Fernandina Beach. Nassau County and several other counties are in the Jacksonville MSA.

According to 1990 census data, the population of Nassau County was 43,941. Nassau County contains five census tracts: four middle-income census tracts and one upper-income census tract. The bank's entire assessment area contains 33 census tracts. 12.1 percent are low-income census tracts, 24.2 percent are moderate-income census tracts, 39.4 percent are middle-income census tracts, and 24.3 percent are upper-income census tracts.

Nassau County contained 18,726 housing units as of the 1990 census and the majority (67.9 percent) were owner-occupied. As noted earlier, many of the loans made in Nassau County by the bank are construction loans. Larger banks compete for loans in the Fernandina Beach area, and to date, Southeastern Bank of Florida has not been a major player in Fernandina Beach. Rather, it has concentrated its efforts around the smaller towns of Callahan and Yulee.

As shown in the table below, upper-income families constitute the greatest percentage of families in the bank's assessment area. Compared with the state of Florida, the percentages of families in the assessment area by income level are slightly higher in the low- and upper-income categories and slightly lower in the moderate- and middle-income categories.

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

DISTRIBUTION OF FAMILIES BY INCOME LEVEL

LEVEL OF INCOME	ASSESSMENT AREA		STATE OF FLORIDA	
	NUMBER OF FAMILIES	PERCENTAGE BY INCOME LEVEL	NUMBER OF FAMILIES	PERCENTAGE BY INCOME LEVEL
Low-income	11,914	22.2%	677,883	19.1%
Moderate-income	9,105	17.0%	665,313	18.8%
Middle-income	10,748	20.0%	804,174	22.7%
Upper-income	21,919	40.8%	1,393,954	39.4%
Total	53,686	100.0%	3,541,324	100.0%

The median family income for the assessment area is generally higher than it is for the Gainesville MSA but slightly lower than the state and the Jacksonville MSA. The 1990 median family income in the assessment area was \$32,206 compared with \$31,403 for the Gainesville MSA, \$32,212 for the state, and \$34,276 for the Jacksonville MSA. According to information reported by the U.S. Bureau of Labor Statistics as of May 1997, the unemployment rates, which are not seasonally adjusted, were 3.0 percent for Alachua County (the Gainesville MSA was also at 3.0 percent, although the city of Gainesville was slightly higher at 3.5 percent); 3.8 percent for Nassau County (3.7 percent for the Jacksonville MSA); and 4.7 percent for the entire state of Florida.

The median housing value is also lower in the bank's assessment area than in the state and the Jacksonville MSA, and slightly higher than in the Gainesville MSA. The median housing value in the bank's assessment area was \$66,915 compared with \$76,487 for the state, \$67,287 for the Jacksonville MSA, and \$65,507 for the Gainesville MSA.

## DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

The leading industries in the assessment area include service, retail, and government. All of these industries are experiencing some growth. From 1990 to 1994, overall employment increased by 9.8 percent in Alachua County and by 15.1 percent in Nassau County. As already mentioned, the largest employer in Gainesville is the University of Florida, and the Port Authority and Georgia Pacific have a large presence in Nassau County.

During the CRA examination, community contacts were made with four individuals representing local governments, community development corporations, and nonprofit organizations. The perception of the contacts is that the local financial institutions have been participating in community development largely through loan pool consortiums that fund affordable housing. The contacts stated, however, that more participation could be directed toward redevelopment projects that are needed in the communities.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Lending in Assessment Area

#### DISTRIBUTION OF LOANS INSIDE/OUTSIDE THE ASSESSMENT AREA

TYPE OF LOAN	NUMBER OF LOANS IN SAMPLE	PERCENTAGE OF LOANS INSIDE ASSESSMENT AREA	PERCENTAGE OF DOLLAR AMOUNT INSIDE ASSESSMENT AREA
Consumer loans	49	98%	90%
Small business loans	73	100%	100%

The bank's performance in this category exceeds the standards for satisfactory performance. The sample of loans used to perform the analysis revealed that 98 percent of consumer loans and 100 percent of small business loans were extended to borrowers and small businesses located inside the bank's assessment area. This analysis also revealed that 90 percent of the total dollar amount of consumer loans and 100 percent of the total dollar amount of business loans were extended within the assessment area.

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

The following table shows the distribution of 46 consumer loans made inside the bank's assessment area by the income level of the borrower. The borrowers' income levels were determined by comparing their income with the median family income of the MSA in which they live.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

**Lending to Borrowers of Different Incomes and Businesses of Different Sizes (Continued)**

**DISTRIBUTION OF CONSUMER LOANS BY BORROWER'S INCOME COMPARED TO THE PERCENTAGE OF FAMILIES IN THE BANK'S ASSESSMENT AREA BY INCOME LEVEL**

<b>INCOME LEVEL</b>	<b>PERCENTAGE OF LOANS BY VOLUME</b>	<b>PERCENTAGE OF LOANS BY DOLLAR AMOUNT</b>	<b>PERCENTAGE OF FAMILIES IN ASSESSMENT AREA BY INCOME LEVEL</b>
Low-income	30%	26%	22.2%
Moderate-income	33%	28%	17.0%
Middle-income	11%	11%	20.0%
Upper-income	26%	35%	40.8%
Total	100%	100%	100.0%

The percentage of the bank's consumer loans that were made to low- and moderate-income individuals is much higher than would be expected given their representation in the community. As shown in the above table, low-income families make up 22.2 percent of the assessment area's families, and low-income borrowers received 30 percent of the consumer loans sampled. The percentage of loans to moderate-income borrowers (33 percent) exceeded their 17 percent representation in the assessment area. Lending to middle-income borrowers at 11 percent is slightly less than the 20 percent representation in the assessment area. While upper-income families represent 40.8 percent of total families, upper-income borrowers received 26 percent of the loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

### Lending to Borrowers of Different Incomes and Businesses of Different Sizes (Continued)

The following table shows the distribution of the small business loans by the original loan amount. The small business loans included in the sample were defined as business loans with original amounts of \$1 million or less.

**DISTRIBUTION OF SMALL BUSINESS LOANS BY ORIGINAL LOAN AMOUNT**

<b>LOAN AMOUNTS</b>	<b>PERCENTAGE OF LOANS</b>	<b>PERCENTAGE OF DOLLAR AMOUNT OF LOANS</b>
Less than \$100,000	83%	41%
\$100,000 to \$250,000	11%	31%
\$250,000 to \$1 million	6%	28%
Total	100%	100%

As shown in the above table, a significant majority of the bank's small business loans were in amounts of less than \$100,000. Additionally, of the 67 loans for which business revenue information was available, 58 (87 percent) were to businesses with gross annual revenues less than \$1 million. The availability of small business loans corresponds to the credit needs of the community.

Overall, the bank's lending to borrowers of different incomes and businesses of different sizes exceeds the standards for satisfactory performance.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

**Geographic Distribution of Loans**

**DISTRIBUTION OF CONSUMER LOANS BY CENSUS TRACT INCOME LEVELS**

<b>CENSUS TRACT INCOME LEVEL</b>	<b>PERCENTAGE OF POPULATION RESIDING IN CENSUS TRACTS BY INCOME LEVEL</b>	<b>PERCENTAGE OF CONSUMER LOANS</b>
Low-income	8.9%	0.0%
Moderate-income	23.5%	6.0%
Middle-income	45.7%	90.0%
Upper-income	21.9%	4.0%
Total	100.0%	100.0%

As shown in the table above, no loans in the consumer sample were made to borrowers residing in low-income census tracts. This percentage is very low when compared to the percentage of the assessment area population (8.9 percent) residing in low-income census tracts. Further weaknesses in loan distribution were evidenced when the percentage of loans originated in moderate-income census tracts (6 percent) was compared to the percentage of the population (23.5 percent) residing in those census tracts.

**DISTRIBUTION OF BUSINESS LOANS BY CENSUS TRACT INCOME LEVELS**

<b>CENSUS TRACT INCOME LEVEL</b>	<b>PERCENTAGE OF CENSUS TRACTS BY INCOME LEVEL</b>	<b>PERCENTAGE OF BUSINESS LOANS</b>
Low-income	12.1%	3.0%
Moderate-income	24.2%	15.0%
Middle-income	39.4%	74.0%
Upper-income	24.3%	8.0%
Total	100.0%	100.0%

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

### Geographic Distribution of Loans (Continued)

The table above shows that the percentage of business loans (3.0 percent) made to businesses located in low-income census tracts is lower than the percentage of low-income census tracts (12.1 percent) in the bank's assessment area. However, 24.2 percent of census tracts are moderate-income, and 15 percent of the loans were made to businesses located in moderate-income census tracts.

The bank collects information that shows the number and dollar amount of credit applications (for all types of loans) received, approved, and declined by census tracts. From February 6, 1996, through April 30, 1997, the bank received 1,069 loan applications. Of the 1,069 requests, the bank originated 866 loans (81 percent) totaling \$21,521,292. Southeastern Bank of Florida made 799 (92 percent) of the loans in its assessment area. The bank also collected and analyzed data on loan activity in low- and moderate-income census tracts for the same time period. 547 loans were made in Alachua County, which is where all the low- and moderate-income tracts in the assessment area are located (approximately 36.3 percent of the bank's census tracts are low- and moderate-income. 90 loan requests came from applicants residing in low- and moderate-income census tracts. Of the 90 requests, 88 loans (98 percent) totaling \$3,232,898 were originated. Thus, of the 547 loans made in Alachua County, 16 percent were made in low- and moderate-income census tracts.

Because of competition and other factors, the bank has had a difficult time making a substantial amount of loans in low- and moderate-income census tracts. Five of the bank's six offices are in middle-income census tracts, and most of the loans have naturally been concentrated in the areas that surround the offices. According to bank records, of all loans originated from February 6, 1996, through April 30, 1997, approximately 38 percent were made in the middle-income census tract where the main office is located. Although lending in low- and moderate-income census tracts seems to be low compared to other areas, no arbitrary exclusion of any particular geography in the assessment area is evident. The low levels of lending in low- and moderate-income census tracts can partially be explained by the competitive and demographic factors discussed earlier under the description of the assessment area. Although the bank's Gainesville branch, which is in a low-income census tract, maintains a high level of deposits, its level of loans is relatively low. Competition from other financial institutions and the location of the University of

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Florida hamper Southeastern Bank of Florida's ability to make loans in low- and moderate-income census tracts.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

### **Geographic Distribution of Loans (Continued)**

Overall, based on these factors and the demographics of the assessment area, the bank meets the standards for satisfactory performance relating to the geographic distribution of loans.

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

The bank's average loan-to-deposit ratio for the six quarters ended March 31, 1997, is 46.8 percent. Three other banks of similar size that are headquartered in the area have average loan-to-deposit ratios that range from 59.2 to 77.8 percent for this same time period. Management monitors the individual loan-to-deposit ratio of each office. When the bank acquired the Nassau County branches, it retained a limited amount of loans. Furthermore, the bank had difficulty finding knowledgeable branch managers who were able to work with the people in the community. The Gainesville branch office has also been adversely affected by management turnover. In contrast, the average loan-to-deposit ratios for the six quarters ended March 31, 1997, for the Alachua and Jonesville offices are 114.6 percent and 86.3 percent. The Alachua office typically has a loan-to-deposit ratio of over 100 percent. With the recent placement of new branch managers in several of the bank's offices, the trend toward a higher loan-to-deposit ratio is noted. Given the bank's size and resources, the loan-to-deposit ratio meets the standards for satisfactory performance.

### **Complaints**

No CRA-related complaints have been received by the bank since the previous examination.

### **Compliance with Antidiscrimination Laws**

During the examination, the bank's compliance with fair lending laws and regulations was reviewed. The review included an analysis of accepted and rejected consumer loan applications, commercial loans, and the bank's loan policy. The fair lending analysis revealed no evidence of disparate treatment, discrimination, or other illegal credit practices. No violations of the substantive provisions of the antidiscrimination laws or regulations were identified; however, technical violations that involve procedural aspects of the regulations were noted. Violations of Regulation B - Equal Credit Opportunity Act were limited to newly acquired branches. The violations of Regulation C - Home Mortgage Disclosure Act were isolated.

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