

## **PUBLIC DISCLOSURE**

**July 18, 2011**

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

**First Navy Bank  
180 Taylor Road  
Naval Air Station  
Pensacola, Florida 32508**

**RSSD ID Number: 581237**

**FEDERAL RESERVE BANK OF ATLANTA  
1000 Peachtree Street, N.E.  
Atlanta, Georgia 30309-4470**

**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 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.

**TABLE OF CONTENTS**

	<b>PAGE</b>
Institution’s Community Reinvestment Act (CRA) Rating.....	2
Scope of Examination.....	2
Description of Institution.....	2
Description of Assessment Area.....	3
Conclusions with Respect to Performance Criteria.....	4
Appendix A – Scope Of Examination.....	7
Appendix B – General Information.....	8
Appendix C – Glossary.....	9

**INSTITUTION'S CRA RATING: This institution is rated Needs to Improve.**

Major factors supporting the institution's rating include:

- The bank's loan-to-deposit ratio was less than reasonable.
- The distribution of consumer loans to borrowers of different income levels is poor.
- The concentration of lending in the assessment area is excellent.
- No complaints regarding the bank's CRA performance were received.

**SCOPE OF EXAMINATION**

The CRA performance evaluation assesses the bank's record of meeting the credit needs of its community, including low- and moderate-income neighborhoods, within the context of information such as asset size and financial condition of the institution, competitive factors, and the economic and demographic characteristics of its defined assessment area. This CRA performance review was based on the bank's lending performance in its assessment area using the Interagency Small Institution Examination Procedures. The rating was assessed using the following core criteria developed for evaluating CRA lending performance for small banks:

- Net Loan-to-Deposit Ratio
- Lending to Borrowers of Different Incomes
- Concentration of Lending in the Assessment Areas
- Responsiveness to Consumer Complaints

The examination review period includes loans extended between January 1, 2008 and December 31, 2010. The evaluation of consumer automobile loans is based on a sample of consumer automobile loans originated between January 1, 2010 to December 31, 2010.

As part of this evaluation, one community contact was made with a base official who deals with social services for military personnel. This official is also familiar with the economic and demographic characteristics of members of the military, as well as community development opportunities in the bank's assessment area. The assessment area consists of the bank's depositors, who are worldwide military personnel, retirees, and their families. Information obtained from this contact was used to establish a context for the community in which the bank operates and to gather information on the bank's performance. Specific information obtained from the community contact is included in the applicable section of the evaluation for the assessment area. The contact did not identify any unmet credit needs.

**DESCRIPTION OF INSTITUTION**

Branch Offices

First Navy Bank operates two full-service banking facilities in Pensacola, Florida. The main office is located on the Naval Air Station (NAS) Pensacola, and the second branch was opened in 2007 just outside the entrance of the base, which is more accessible to the public. The bank is a wholly-owned subsidiary of Five Flags Bank, Inc., a bank holding company in Pensacola, Florida. Total assets reported on the March 31, 2011 Consolidated Reports of Condition and Income were \$63.1 million, with total loans of \$3.9 million and total deposits of \$50.3 million.

Loan Portfolio

According to the March 31, 2011 Report of Condition (ROC), the bank’s assets totaled \$63.1 million, an increase of 14.0 percent since the bank’s previous CRA evaluation conducted in February 2008. The bank’s customer base consists mostly of U.S. military personnel and retirees throughout the world. Generally, the bank offers only consumer credit products as follows: personal lines of credit, credit cards, and closed-end consumer credit mostly consisting of automobile loans.

The following table shows the composition of the loan portfolio according to the Consolidated Reports of Condition and Income (ROC).

COMPOSITION OF LOAN PORTFOLIO						
Loan Type	3/31/2011		12/31/2010		12/31/2009	
	\$ (000s)	Percent	\$ (000s)	Percent	\$ (000s)	Percent
Construction and Development	0	0.0%	0	0.0%	0	0.0%
Secured by One- to Four- Family Dwellings	0	0.0%	0	0.0%	0	0.0%
Other Real Estate: Farmland	0	0.0%	0	0.0%	0	0.0%
Multifamily	0	0.0%	0	0.0%	0	0.0%
Nonfarm nonresidential	0	0.0%	0	0.0%	0	0.0%
Commercial and Industrial	0	0.0%	0	0.0%	0	0.0%
Loans to Individuals	3,936	100.0%	4,259	100.0%	5,182	100.0%
Agricultural Loans	0	0.0%	0	0.0%	0	0.0%
<i>Total</i>	<b>\$3,936</b>	<b>100.00%</b>	<b>\$4,259</b>	<b>100.00%</b>	<b>\$5,182</b>	<b>100.00%</b>

\* This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.

The bank’s consumer loan portfolio has decreased somewhat since the February 2008 examination. Several factors may have contributed to this occurrence. Although the bank has offered competitive rates on automobile loans, there is a high level of competition from the other financial institutions on the base, as well as other military-related financial institutions near the base entrances. Military personnel serving overseas may have a reduced demand for automobile loans, traditionally the bank’s most popular loan product, particularly in terms of dollars loaned.

No known legal impediments exist that would restrict the bank from meeting the credit needs of its assessment area. The bank received a Needs to Improve rating at its previous evaluation conducted by the Federal Reserve Bank of Atlanta dated February 25, 2008 under the small institution examination procedures.

**DESCRIPTION OF ASSESSMENT AREA—WORLDWIDE MILITARY COMMUNITY**

Overview

As allowed by the CRA regulation, First Navy Bank defines its assessment area as its entire customer deposit base, which consists mostly of military personnel, retirees, and their families. First Navy Bank considers its primary customers to be active duty and retired military personnel and their dependents located at NAS Pensacola, Pensacola, Florida; and at national and international installations, bases, and ships. The bank’s marketing efforts are primarily directed to military personnel at or near NAS Pensacola.

Pensacola, the seat of Escambia County, is located in northwest Florida in the Florida Panhandle. The city is strategically positioned along the Gulf Intercoastal Waterway. NAS Pensacola, located ten minutes west of downtown Pensacola, serves as the launching point for the flight training of all naval aviators, naval flight officers, and enlisted air crewmen. The candidates attending training are from all over the United States, and cross all demographic groups, as do all other military personnel stationed at NAS Pensacola. A discussion of

median household income based on data for the United States can be found in the Lending to Borrowers of Different Incomes section of this report.

Economic and demographic data related specifically to the bank's military-based community are not available. Therefore, it is not possible to perform a definitive analysis of the bank's lending as compared to available data pertaining to the bank's community. Therefore, national demographic data has been used in assessing the bank's lending performance.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### LENDING TEST

#### Loan-to-Deposit Ratio

The bank's net loan-to-deposit ratio reflects its level of lending activity and its lending levels show a less than reasonable responsiveness to meeting the overall assessment area's credit needs.

First Navy Bank's average loan-to-deposit (LTD) ratio for the five quarters ended March 31, 2011 is 9.1 percent. The bank's credit products consist of automobile loans, unsecured lines of credit, and credit cards. The bank markets these products to military personnel and retirees in and near NAS Pensacola. Several factors contribute to the low ratio, including the bank's focus on small dollar consumer lending. The credit limit for most new credit card accounts is \$1,000. The bank's unsecured lines of credit are typically established at \$2,000. Also, the LTD ratio reflects only the amounts of credit that are outstanding, rather than original loan amounts or available lines of credit. During the review period, the average automobile loan in our sample, at origination, was \$19,235.25. Additionally, the bank does not originate loans secured by real estate or business purpose loans, which are generally large dollar loans that remain in the portfolio for a longer period of time. With the deployment overseas of much of the military after 2001, loan demand has been depressed. Also, given general economic conditions in Pensacola, the market for automobile loans has been depressed as well.

Another factor negatively affects the bank's loan-to-deposit ratio. On the 15<sup>th</sup> and the last day of each month, First Navy Bank has a large volume of military and retirement pay directly deposited into demand accounts. Even though these funds (as much as \$12 million) are generally drawn down rapidly, they cause a decrease in the bank's loan-to-deposit ratio on the last day of each month (ROC balances are reported at quarter end).

Competitive factors have also contributed to the low average LTD ratio. A federal credit union is located on the base, and another credit union is located just outside the naval facility. Other major competitors include banks, finance companies, and used car dealers that offer longer-term loans with more flexible payment options. The finance arms of car manufacturers are also offering longer term new vehicle financing or super-low, sometimes zero percent, interest rates.

Military personnel are generally stationed at NAS Pensacola for a period of two to three years before reassignment, while personnel receiving training generally stay for a period of only six months or less. The lack of longevity in the Pensacola area by military personnel may contribute to a lower demand for loan products, which can be sporadic. However, once deposit relationships are established, demand for deposit services tend to remain relatively high, given that most deposits are direct deposits of military pay or pensions.

The LTD ratios of other banks that primarily serve military personnel were also considered (as of the March 31, 2011 ROC). The banks in the following table were able to be identified as primarily serving military personnel. These banks had an average LTD ratio of 24.7 percent.

<b>Bank</b>	<b>Overall LTD Ratio</b>
Fort Sill National Bank	23.7%
Fort Hood National Bank	10.5%
Armed Forces Bank, NA	44.5%
Armed Forces Bank of CA, NA	20.1%

In addition, First Navy Bank's product line is much narrower than the banks listed above, which offer mortgage loan products.

Given the bank's location on a military base and the bank's focus on small dollar consumer lending, deposit anomalies, competition from other financial entities, and opportunities for community development lending and investments, the bank's loan to deposit ratio is considered less than reasonable when compared to other similarly situated financial institutions that serve the military community.

#### Assessment Area Concentration

As noted above, as a bank that primarily serves a military community consisting of active duty and retired military personnel and their dependents; the bank has defined its assessment area as its deposit base. All of the bank's loan customers maintain deposit accounts. Therefore, 100 percent of the bank's loans are within its assessment area, which is considered excellent.

#### Geographic Distribution of Loans

Because the bank's assessment area is its entire deposit customer base and it has no defined geographic boundary, a review of the geographic distribution of the bank's loans was not conducted.

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

##### Consumer Lending

First Navy Bank's performance with regard to lending to borrowers of different income levels is poor. As discussed earlier, the bank's customer base consists principally of military personnel who are not located within a defined geographic area, so it was necessary to define its assessment area to include the entire deposit base. Because automobile loans made up the majority of the bank's consumer loan portfolio, that product was chosen for this review. Of the automobile loans originated from January 1, 2010 to December 31, 2010, a sample of 83 loans was selected for review. Because gross annual incomes are not available for the entire base of deposit customers, a direct comparison of the incomes of deposit customers to loan customers could not be performed. In addition, the number or percentage of military personnel at various income levels is not publically available. Although it does not correspond to the bank's military community, the only demographic data available that may offer a comparison of the dispersion of the bank's lending to different income groups is nationwide household income data. Accordingly, the tables below show the distribution of borrower income based on national median household income, followed by a comparison of a sample of the bank's lending to low-, moderate-, middle-, and upper-income borrowers to that of households in the same income groups nationwide.

**Borrower Income Levels  
National Median Household Income**

U.S. Census Estimated Median Household Income		Low	Moderate	Middle	Upper
		0 - 49.99%	50% - 79.99%	80% - 119.99%	120% - & above
<b>2009</b>	<b>\$50,221</b>	0 - \$25,110	\$25,111 - \$40,176	\$40,177 - \$60,264	\$60,265 - & above

**Borrower Distribution of Consumer Automobile Loans**

Borrower Income Levels	Bank Lending & Demographic Data Comparison				
	2010				
	Bank		Demographics		Households by Household Income
	Count		\$ (000s)		
#	%	\$	%	%	
Low	3	3.6%	25	1.6%	23.1%
Moderate	11	13.3%	118	7.7%	16.6%
Middle	19	22.9%	310	20.2%	19.2%
Upper	50	60.2%	1,083	70.5%	41.1%
Unknown	0	0.0%	0	0.0%	0.0%
<i>Total</i>	83	100.0%	1,536	100.0%	100.0%

Originations

As indicated in the table, the bank's lending to low-income borrowers was significantly below the percentage of U.S. households that are low-income, which reflects poor performance. The bank's lending to moderate - income borrowers was only slightly below the percentage of U.S. households that are moderate-income, which reflects reasonable performance. Overall, the bank's lending does not reasonably reflect the demographic data, which reflects poor performance.

**RESPONSE TO SUBSTANTIATED COMPLAINTS**

The bank has not received any CRA-related complaints since the previous evaluation.

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of prohibited discrimination or the use of other illegal credit practices was noted during the examination. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.

**APPENDIX A**

<b>SCOPE OF EXAMINATION</b>			
<b>TIME PERIOD REVIEWED</b>			
January 1, 2010 through December 31, 2010—Lending Test			
<b>FINANCIAL INSTITUTION</b>		<b>PRODUCTS REVIEWED</b>	
First Navy Bank, Pensacola, Florida		Consumer Automobile Loans	
<b>AFFILIATE(S)</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>	
Five Flags Bank	Holding Company	None	
The Warrington Bank	Bank Affiliate	None	
Bank of the South	Bank Affiliate	None	
Bank Data, Inc.	Bank Affiliate	None	
<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<i>ASSESSMENT AREA</i>	<i>TYPE OF EXAMINATION</i>	<i>BRANCHES VISITED</i>	<i>OTHER INFORMATION</i>
Military Deposit Customers	Full Scope	NAS Pensacola Branch	N/A



## APPENDIX B – DEFINITIONS AND GENERAL INFORMATION

### Definitions

ATM -	Automated Teller Machine
CDC -	Community Development Corporation
CDFI -	Community Development Financial Institution
CRA -	Community Reinvestment Act (Regulation BB)
FDIC -	Federal Deposit Insurance Corporation
FFIEC -	Federal Financial Institutions Examination Council
HMDA -	Home Mortgage Disclosure Act (Regulation C)
HUD -	Department of Housing and Urban Development
LMI -	Low- and Moderate-Income
LTD -	Loan-to-Deposit
LTV -	Loan-to-Value Ratio
MD -	Metropolitan Division
MSA -	Metropolitan Statistical Area
OMB -	Office of Management and Budget
REIS -	Regional Economic Information System
SBA -	Small Business Administration
USDA -	United States Department of Agriculture

### Rounding Convention

Because the percentages presented in tables were rounded to the nearest tenth in most cases, some columns may not total exactly 100 percent.

### 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 CRA performance of First Navy Bank prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of July 18, 2011. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

## APPENDIX C- GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multi-family rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- I. Low-or moderate-income geographies;
- II. Designated disaster areas; or
- III. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

## APPENDIX C – GLOSSARY (Continued)

**Full-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

## APPENDIX C – GLOSSARY (Continued)

**Multi-family:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.