

# **PUBLIC DISCLOSURE**

April 15, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Mercantile Bank of Naples  
06-12-1053

Naples, 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 Mercantile Bank of Naples prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of April 15, 1996. 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 Outstanding.

Mercantile Bank of Naples is assigned an outstanding rating because of its high average loan-to-deposit ratio, high percentage of loan originations in its assessment area, and excellent distribution of loans throughout its assessment area. In addition, the bank's loan distribution by income level of the borrower is reasonable. The bank is in substantial compliance with all provisions of the antidiscrimination laws and regulations.

**GENERAL INFORMATION (CONTINUED)**

The following table indicates the performance level of Mercantile Bank of Naples with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	MERCANTILE BANK OF NAPLES		
	PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio	X		
Lending in assessment area	X		
Lending to borrowers of different incomes and to businesses of different sizes		X	
Geographic distribution of loans	X		
Response to complaints	No complaints have been received since the previous examination.		

## **DESCRIPTION OF INSTITUTION**

Mercantile Bank, operating since 1985, had total assets of \$106.5 million on December 31, 1995. The bank is located in Naples, Florida, and has three offices. The bank's three offices are located in Naples, which is the largest incorporated city in Collier County. The bank's two loan officers are located in the main office; however, applications are taken at all three offices. The main office is located in a middle-income tract (2.00) and both branches are located in upper-income tracts (6.00 and 104.02). The Airport branch was opened in December 1988, and the Ridgeport branch, formerly an office of Fortune Savings Bank and AmSouth Bank of Florida, was acquired in February 1995.

The bank offers a variety of consumer and business loan products. Real estate loans offered include owner-occupied, single-family primary or secondary residences; non-owner-occupied, single-family residential loans for income investment; loans to finance the construction of single-family residences; commercial real estate loans; and other types of land development and improvement loans. Consumer loans offered include home improvement loans, second mortgage loans for various purposes, loans secured by certificates of deposit and savings accounts, automobile loans, small boat and recreational vehicle loans, loans secured by marketable securities, and revolving personal lines of credit (secured) such as home equity lines.

The bank's resources and expertise are largely concentrated in the residential mortgage lending area; however, secured business and commercial loan products are provided to its customers. Business loan products offered are working capital lines of credit, first mortgages on commercial properties, equipment and inventory loans, and short-term notes secured by collateral other than real estate.

The February 28, 1996 safety and soundness examination conducted by the Federal Reserve Bank of Atlanta did not identify any legal or financial impediments that would prevent the bank from meeting the credit needs of its assessment area.

### DESCRIPTION OF INSTITUTION (CONTINUED)

According to the December 31, 1995 Uniform Bank Performance Report, the bank's loan portfolio is comprised of the following:

<b>Loan Type</b>	<b>Percent of Total</b>
1-4 Family	98.24%
Home Equity	1.14%
Other Real Estate	.76%
Loans to Individuals	.54%
Commercial & Industrial	.46%
Other	.06%
<b>Total</b>	<b>100.00%</b>

Consistent with the bank's lending strategy, one-to-four family residential loans comprise the greatest percentage of the bank's loan portfolio.

## **DESCRIPTION OF ASSESSMENT AREA: NAPLES, COLLIER COUNTY, FLORIDA**

The bank's assessment area is in the Naples Metropolitan Statistical Area (MSA) in southwest Florida. The MSA contains 31 census tracts. The bank's assessment area includes 28 of these tracts:<sup>1</sup> one is a low-income census tract; two are moderate-income census tracts; 13 are middle-income, and 12 are upper-income census tracts.

Collier County is a vacation and retirement community for myriad people, but is predominately populated by upper-income individuals who reside in or visit coastal Collier County. With 22.6 percent of its residents aged 65 or over, Collier County was ranked 163rd<sup>2</sup> of 573 counties with more than 10,000 or more elderly (25 percent of the assessment area population is 65 or over). The single-county MSA has experienced the fastest rate of population growth of any MSA in the country. The county population increased from 85,971 in 1980 to 152,099 in 1990. It is estimated that during the peak season, "coastal" Collier County's population increases by 33 percent. The projected population for the year 2000 is 222,899. The permanent population is approximately 78 percent urban and 22 percent rural.

According to the 1990 Census, the population of the bank's assessment area is 135,989. The 1990 Census reflects a median family income for the assessment area of \$40,795, which compares favorably to the median family income for the Naples MSA of \$38,428. As of 1990, approximately 42 percent of the total 40,795 families in the assessment area were within the upper-income range and 34 percent of families earned in the low- to moderate-income range.<sup>3</sup> Slightly less than 4 percent of families were below the poverty threshold. The assessment area's total minority population is 13,856, or 10.2 percent of the total population. The racial composition of the assessment area is 89.8 percent white, 7.3 percent Hispanic, 2.3 percent black, and 0.6 percent other.

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<sup>1</sup>Subsequent to the examination date, the bank amended its assessment area to include all of Collier County which includes an additional low-income census tract.

<sup>2</sup>65+ in the United States, Current Population Reports P23-190, April 1996, U.S. Department of Commerce and U. S. Department of Health and Human Services

<sup>3</sup>Low-income is defined as less than 50 percent of the median income, whereas moderate-income is defined as less than 80 percent of the median income.

## **DESCRIPTION OF ASSESSMENT AREA: NAPLES, COLLIER COUNTY, FLORIDA (CONTINUED)**

Of the 57,408 total households in the assessment area, 20,277 (35.3 percent) are low- or moderate-income households. In absolute numbers, the area contains 9,753 low-income households; 10,524 moderate-income households; 12,851 middle-income households; and 24,280 upper-income households. The 88,999 housing units in the assessment area reflected the following 1990 occupancy rates: 47 percent owner-occupied and 18 percent renter-occupied. Indicative of a transient community, 35 percent of units were vacant.

Owner-occupied status was highest in the middle-income tracts at 50 percent and was least represented in the low-income tract at 23 percent. Low-income households reside throughout the county although they represent the majority (62%) in only the one low-income census tract. Low-income households were 24 percent and 10 percent of total households in moderate- and upper-income tracts, respectively. Naples Park, Naples Manor and River Park are low-income communities located near resorts and golf courses that are valued in the upper-income category. The median value of owner-occupied dwellings was \$125,645. The median value ranged from \$54,667 in the low-income tract to \$251,392 in upper-income tracts.

Of the 6,010 business establishments in Collier County in 1992, 60 percent were retail and service enterprises. As industries, these two sectors represented 70 percent of total county employment.<sup>1</sup> Led by the construction industry, employment in these sectors has exhibited stable to increasing trends. Farm employment has continued to grow at a rapid pace, supporting 10,058 in 1993, a 53 percent increase from 1990. Many of the employees are migrant workers. Only five private service enterprises reported over 500 employees. 97 percent of establishments had 1-49 employees. Collier County's unemployment rate was 11.4 percent in the fourth quarter of 1994.

Three community contacts identified affordable housing as the primary credit need. Contacts identified potential consumers for this housing as migrant workers and residents employed in the retail and service sectors, particularly those communities near or in more affluent tracts. None of the contacts presented any derogatory information regarding local financial institutions, and all believed that the current credit product types offered by local financial institutions help meet the credit needs of the community.

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<sup>1</sup>1992 County Business Patterns, U.S. Census Bureau U.S. Department of Commerce.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Loan-to-deposit ratio: The bank's loan-to-deposit ratio exceeds standards for a satisfactory rating. The bank's average loan-to-deposit ratio for the seven quarters since the previous examination was 94 percent. As of December 31, 1995, the bank's loan-to-deposit ratio was 92.8 percent. According to the December 31, 1995 Uniform Bank Performance Report (UBPR), the bank's net loan-to-deposit ratio was 92.4 percent, placing the bank in the 97th percentile of its peer group.

Lending in assessment area: During the examination, 95 loans were sampled to determine the bank's performance record. The consumer home purchase and home refinance product lines were selected for review. Of the 95 loans selected, 60 were home purchase loans and 35 were refinance loans. 91 (95.7 percent) of the loans were secured by properties in the bank's assessment area. Of the home purchase loans, 58 (96.7 percent) of the 60 loans were within the bank's assessment area. Of the 35 refinance loans, 33 (94.2 percent) were within the bank's area. In conclusion, the bank's lending in its assessment area exceeds standards for satisfactory performance.

Borrower business size distribution: The bank's lending to borrowers of different incomes meets the standard for satisfactory performance. Of the 91 loans in the bank's assessment area, the following table depicts lending to individuals by income.

	HOME PURCHASE LOANS		REFINANCE LOANS	
Income Level of Borrower	Number of Loans	Percentage of Loans	Number of Loans	Percentage of Loans
Low	0	0%	2	6%
Moderate	5	9%	6	18%
Middle	8	14%	9	27%
Upper	45	78%	16	48%
<b>Total</b>	<b>58</b>	<b>100%</b>	<b>33</b>	<b>100%</b>



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

**POPULATION CHARACTERISTICS OF FAMILY BY INCOME LEVEL<sup>1</sup>  
VERSUS  
PERCENTAGE OF LOANS TO BORROWERS OF DIFFERENT INCOME LEVELS**

<b>Income Level of Family</b>	<b>Number of Families In Assessment Area</b>	<b>Percent of Assessment Area Population</b>	<b>Percent of Loans by Borrower Income</b>
Low	5,926	14%	2%
Moderate	8,011	20%	12%
Middle	9,797	24%	19%
Upper	17,061	42%	67%
<b>Total</b>	<b>40,795</b>	<b>100%</b>	<b>100%</b>

The sample of bank loans indicates that low-, and to a lesser extent, moderate-, and middle-income families<sup>2</sup> are receiving loans at a rate lower than their population percentages. The low percentage of loans to low-income individuals is affected by several factors including an inadequate supply of affordable housing in the assessment area and economic factors. Of the 41,509 owner-occupied housing units in the assessment area, only 287 units are valued at less than \$40,000. 1,397 owner-occupied units are valued between \$41,000 and \$60,000. Including properties up to \$100,000, the number of units increases to 9,530.

These "affordable" properties represent 23 percent of owner-occupied units in the assessment area. Assuming a 5 percent downpayment, no other fixed payments and conventional underwriting, households earning at the high-end of the low-income range could not afford to finance a \$60,000 home. Consumers earning at the high-end of the moderate-income range could not finance a \$100,000 home under the same circumstances. 5.5 percent of total households and 3.8 percent of total families in the assessment area earn below the poverty level.

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<sup>1</sup>Due to a lack of data regarding the breakdown of population by an individual's income, family income was used for this comparison. The assumption is made that an individual buying a home is purchasing it for his or her family.

<sup>2</sup>The Census Bureau defines family as a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic distribution: The bank's geographic distribution of loans exceeds the standards for satisfactory performance despite the fact that 40 (44 percent) of the 91 loans sampled were in middle-income tracts and 51 (56 percent) were secured by properties located in upper-income tracts. Of the 91 loans within the bank's assessment area, none were in the three low- or moderate-income census tracts. These tracts include 2,980 households or 5.2 percent of total households; 1,373 of these households (46 percent) have annual incomes in the middle- and upper-income ranges. However, of the 438<sup>1</sup> housing units in the low-income tract, 296 or 68 percent of the units are renter-occupied. This tract, which includes the community of River Park, has the lowest vacancy rate at 10 percent, compared to an assessment area average vacancy rate of 35 percent.

64 percent of the housing units in the low-income tract are in developments of 5 or more units with an average monthly rent of \$270, which is lower than the approximate monthly principal and interest payment of \$357 necessary to finance the median priced home in the low-income tract using conventional underwriting and assuming a 5 percent down payment. In addition, 46.5 percent of the households within the low-income census tract are living below the poverty level. The median income in this tract is 33 percent of the MSA median or approximately \$12,680. HMDA reporters originated 7 of 14 (50 percent) loan applications submitted in 1995 from this tract. Three commercial banks with local branches originated four of the loans.

The bank's relatively new branch, the location of the branches, keen competition, and the recently expanded assessment area are mitigating factors in the geographic distribution assessment.

The bank has not received any CRA-related complaints since the previous examination. No violations of the substantive provisions of the antidiscrimination laws and regulations were noted. Mercantile Bank's loan policy includes a comprehensive Equal Credit Opportunity statement. The bank solicits credit applications from all segments of the assessment area, including low- and moderate-income neighborhoods. However, one of the bank's advertising brochures incorrectly states that the bank does not originate fixed rate residential mortgage loans for less than \$50,000.

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<sup>1</sup>The units in the low-income tract represent only 0.5% of the total assessment area units. The majority of units--94%--are located in the middle- and upper-income tracts.

TO THE INSTITUTION EXAMINED:

THIS COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION WAS PREPARED BY THE FEDERAL RESERVE BANK OF ATLANTA. THE FOLLOWING ACTIONS MUST BE TAKEN TO FULFILL THE CRA'S REQUIREMENTS.

- C AT A MINIMUM, PLACE THE EVALUATION IN YOUR CRA PUBLIC FILE LOCATED AT YOUR HEAD OFFICE (AND A DESIGNATED OFFICE IN EACH OF YOUR LOCAL COMMUNITIES) NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THE EVALUATION.
- C PROVIDE A COPY OF THE EVALUATION TO THE PUBLIC UPON REQUEST (YOU ARE PERMITTED TO CHARGE A FEE NOT TO EXCEED THE COST OF REPRODUCTION AND MAILING IF APPLICABLE) NO LATER THAN 30 BUSINESS DAYS AFTER RECEIVING THIS LETTER.

**FEDERAL RESERVE BANK OF ATLANTA**

ASSISTANT VICE PRESIDENT

\_\_\_\_\_  
(Date)

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CYNTHIA C. GOODWIN

\_\_\_\_\_  
(Title)

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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TO THE FEDERAL RESERVE BANK OF ATLANTA

A COPY OF THE COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PREPARED AS OF THE CLOSE OF BUSINESS APRIL 15, 1996, BY AN EXAMINER FOR THE FEDERAL RESERVE BANK OF ATLANTA HAS BEEN RECEIVED AND WILL BE MADE AVAILABLE TO THE PUBLIC IN THE MANNER STATED IN THE LETTER WHICH ACCOMPANIED THE EVALUATION.

\_\_\_\_\_  
(Signature of Authorized Officer)

\_\_\_\_\_  
(Title)

MERCANTILE BANK OF NAPLES

\_\_\_\_\_  
(Name of Bank)

NAPLES, FLORIDA

\_\_\_\_\_  
(Location)

\_\_\_\_\_  
<sup>1</sup>The units in the low-income tract represent only 0.5% of the total assessment area units. The majority of units--94%-- are located in the middle- and upper-income tracts.

# FEDERAL RESERVE BANK OF ATLANTA

**Cynthia C. Goodwin**  
ASSISTANT VICE PRESIDENT

Board of Directors  
Mercantile Bank of Naples  
Post Office Box 413042  
Naples, Florida 33941

Dear Board Members:

Enclosed is the bank's Community Reinvestment Act Performance Evaluation prepared by Federal Reserve Examiner Daniel J. Griffin, Jr., using the guidelines established by the Federal Financial Institutions Examination Council. This evaluation was prepared in accordance with the Community Reinvestment Act (CRA), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and must be made available to the public. The following actions must be taken to fulfill the CRA's requirements.

- C At a minimum, place the evaluation in your CRA public file located at your head office (and a designated office in each of your local communities) no later than 30 business days after receiving this letter.
- C Provide a copy of the evaluation to the public upon request (you are permitted to charge a fee not to exceed the cost of reproduction and mailing if applicable) no later than 30 business days after receiving this letter.

Please acknowledge receipt of this evaluation by signing and returning the attached blue form. The format and content of the evaluation should not be altered or abridged in any manner. You may wish to comment on this information detailing actions the bank has taken since the examination to meet its obligations under the CRA. Any written comments concerning the evaluation placed in the public file should also be forwarded to this office. If you believe any of the information included in the public evaluation is proprietary, please contact this Reserve Bank so that the appropriate action can be taken.

Our Community Affairs staff is available to assist you in determining and responding to community credit needs. Please feel free to contact Mr. Courtney Dufries at (404) 589-7226. If you have any questions concerning this report or any other compliance matter, contact Ms. Gale Williams at (404) 589-7223.

Very truly yours,

Cynthia C. Goodwin

Enclosures

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<sup>1</sup>The units in the low-income tract represent only 0.5% of the total assessment area units. The majority of units--94%--are located in the middle- and upper-income tracts.

## PUBLIC DISCLOSURE

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Name of Bank: MERCANTILE BANK OF NAPLES

City and State: NAPLES, FLORIDA

Date of Examination: APRIL 15, 1996

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