

# PUBLIC DISCLOSURE

October 18, 1999

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Friendship Community Bank  
1192733

Ocala, Florida

Federal Reserve Bank of Atlanta  
104 Marietta Street, N. W.  
Atlanta, Georgia 30303-2713

***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.***

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<b>GENERAL INFORMATION</b>
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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 Friendship Community Bank prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of October 18, 1999. 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.

The bank's average loan-to-deposit ratio for the previous ten quarters is adequate. A substantial majority of the bank's residential real estate loans were originated inside the bank's assessment area. The geographic distribution of residential real estate loans within the bank's assessment area and the distribution of residential real estate loans to borrowers of different incomes are adequate. No complaints have been filed regarding the bank's CRA performance since the previous examination.

**DESCRIPTION OF INSTITUTION**

Friendship Community Bank operates two offices in Ocala, Florida of which one office was opened since the previous examination. Friendship Community Bank is a small community bank whose primary lending focus has been residential real estate and small business lending. Total assets for Friendship Community Bank as of the June 30, 1999 Consolidated Reports of Condition and Income were \$40.4 million, which is a 35 percent increase from the December 31, 1997 financial data. Most of the increase in assets occurred in the bank's securities portfolio. No legal or financial impediments exist that would hinder the bank's ability to help meet the credit needs of its assessment area. The bank received a "satisfactory" rating at its previous CRA evaluation dated February 3, 1997.

Friendship Bank offers a variety of consumer and business loan products to meet community credit needs. The types of credit offered, as listed in the bank's public file, include consumer and small business purpose loans, and loans for the purchase, refinance and construction of one-to-four-family residences.

The composition of the loan portfolio according to the June 30, 1999 Consolidated Reports of Condition and Income or Uniform Bank Performance Report is as follows:

<b>LOAN TYPE</b>	<b>PERCENTAGE</b>
Construction and development	4.6%
Secured by one- to four-family dwellings	52.9%
Other real estate:	
Farmland	0%
Multifamily	0%
Nonfarm nonresidential	9.1%
Commercial and industrial	30.5%
Loans to individuals	2.9%
Agricultural	0%
<b>TOTAL</b>	<b>100.0%</b>

As shown above, the loan portfolio consists primarily of loans secured by one-to-four family dwellings and commercial and industrial loans. Loans to individuals comprise a very small percentage of the bank's loan portfolio.

**DESCRIPTION OF INSTITUTION (Continued)**

As illustrated by the chart on the following page, loans outstanding grew by \$2.5 million between December 31, 1997 and June 30, 1999. Most of the increase in the loan portfolio occurred in commercial and industrial loans. Loans outstanding for this product type increased by \$2.7 million. Commercial real estate loans outstanding decreased by \$509,000 for the same time period. Other loan categories experienced little change.

During the same time period, deposits grew by approximately \$9.0 million. The increase in deposits was

<b>COMPOSITION OF LOAN PORTFOLIO</b>						
<b>Loan Type</b>	<b>6/30/99</b>		<b>12/31/98</b>		<b>12/31/97</b>	
	<b>\$ (000s)</b>	<b>Percent</b>	<b>\$ (000s)</b>	<b>Percent</b>	<b>\$ (000s)</b>	<b>Percent</b>
Construction and Development	\$794	4.6%	\$526	3.4%	\$757	5.1%
Secured by One- to Four-Family Dwellings	\$9,233	52.9%	\$9,162	58.5%	\$9,079	60.6%
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	\$1,594	9.1%	\$1,494	9.5%	\$2,103	14.0%
Commercial and Industrial	\$5,311	30.5%	\$4,047	25.8%	\$2,620	17.5%
Loans to Individuals	\$506	2.9%	\$433	2.8%	\$424	2.8%
Agricultural Loans	\$0	0.0%	\$0	0.0%	\$0	0.0%
<b>Total</b>	<b>\$17,438</b>	<b>100%</b>	<b>\$15,662</b>	<b>100%</b>	<b>\$14,983</b>	<b>100%</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.

notable in certificates of deposits, demand deposits and NOW accounts.

<b>DESCRIPTION OF ASSESSMENT AREA: MARION COUNTY</b>
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**Overview**

In January 1999, Friendship Community Bank expanded its assessment area from three census tracts (26.03, 25.02, and 10.00) in Marion County to the entire county. The bank expanded its assessment area because it opened a branch office in January 1999 in east Marion County. Marion County is considered the Ocala Metropolitan Statistical Area (MSA). Prior to the expansion of the assessment area, the bank did not have any low- or moderate-income census tracts in its assessment area. The bank's assessment area now consists of 46 census tracts with 2 defined as low-income; 4 defined as moderate-income; 33 defined as middle-income; and 7 defined as upper-income. Friendship Community Bank has not arbitrarily excluded any low- or moderate-income census tracts from its assessment area. The table on the next page provides key demographic information from the 1990 census that was used in analyzing the bank's CRA performance. Certain components of the data in the table are discussed in this evaluation as they apply to particular parts of the analysis.

Overall, the assessment area has experienced some economic growth. This growth is illustrated by the demographic information discussed on the following pages.

**DESCRIPTION OF ASSESSMENT AREA: MARION COUNTY (Continued)**

DEMOGRAPHIC ANALYSIS - FRIENDSHIP COMMUNITY BANK						
<b>Distribution of Tracts</b>	<b>Number</b>			<b>Percent</b>		
Low-Income Tracts	2			4.3%		
Moderate-Income Tracts	4			8.7%		
Middle-Income Tracts	33			71.7%		
Upper-Income Tracts	7			15.2%		
<i>Total Assessment Area</i>	46			100.0%		
<b>Housing Units - Tract Distribution</b>	<b>Owner-Occupied</b>		<b>Rental</b>		<b>Vacant</b>	
Low-Income Tracts	397	0.7%	566	3.0%	101	0.6%
Moderate-Income Tracts	4,736	8.0%	1,921	10.1%	1,922	11.7%
Middle-Income Tracts	46,054	77.9%	13,957	73.2%	13,432	82.0%
Upper-Income Tracts	7,925	13.4%	2,621	13.7%	935	5.7%
<i>Total</i>	59,112	100.0%	19,065	100.0%	16,390	100.0%
<b>Housing Units - Percentage in Tract</b>						
Low-Income Tracts	37.3%		53.2%		9.5%	
Moderate-Income Tracts	55.2%		22.4%		22.4%	
Middle-Income Tracts	62.7%		19.0%		18.3%	
Upper-Income Tracts	69.0%		22.8%		8.1%	
<i>Total Assessment Area</i>	62.5%		20.2%		17.3%	
<b>Population - Tract Distribution</b>	<b>Families</b>		<b>Households</b>		<b>Population</b>	
Low-Income Tracts	686	1.2%	989	1.3%	2,754	1.4%
Moderate-Income Tracts	4,716	8.2%	6,677	8.5%	17,331	8.9%
Middle-Income Tracts	44,304	76.7%	60,312	76.8%	147,782	75.9%
Upper-Income Tracts	8,064	14.0%	10,586	13.5%	26,966	13.8%
<i>Total</i>	57,770	100.0%	78,564	100.0%	194,833	100.0%
<b>Population - Percentage by Income</b>						
Low-Income	10,352	17.9%	16,757	21.3%		
Moderate-Income	11,132	19.3%	13,426	17.1%		
Middle-Income	13,860	24.0%	16,471	21.0%		
Upper-Income	22,426	38.8%	31,910	40.6%		
<i>Total</i>	57,770	100.0%	78,564	100.0%		
<b>Families - Tract Distribution</b>	<b>Families &lt; Poverty Level</b>		<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>
Low-Income Tracts	4.5%		3.5%	1.2%	1.0%	0.2%
Moderate-Income Tracts	15.8%		14.5%	9.9%	6.6%	5.3%
Middle-Income Tracts	74.6%		75.6%	81.0%	81.6%	72.0%
Upper-Income Tracts	5.1%		6.3%	7.9%	10.9%	22.4%
<i>Total</i>	100.0%		100.0%	100.0%	100.0%	100.0%
<b>Families - Percentage in Tract</b>						
Low-Income Tracts	41.0%		53.5%	19.2%	19.7%	7.6%
Moderate-Income Tracts	20.8%		31.9%	23.3%	19.4%	25.4%
Middle-Income Tracts	10.5%		17.7%	20.4%	25.5%	36.5%
Upper-Income Tracts	3.9%		8.1%	10.9%	18.7%	62.2%
<i>Total Assessment Area</i>	10.8%		17.9%	19.3%	24.0%	38.8%
<b>Median Family Income</b>	\$26,089					
<b>Households Receiving Public Assistance</b>	6.4%					
<b>Population Age</b>	<b>Age 65 and Over</b>			<b>Age 18 and Over</b>		
	22.1%			78.0%		

Totals in percentage columns are calculated independently and may not be exactly equal to the sum of the components due to rounding of the components. These rounding errors are immaterial and have no effect on related analyses or conclusions.



**DESCRIPTION OF ASSESSMENT AREA: MARION COUNTY (Continued)**

**Population and Income Characteristics**

The population of Marion County grew by 24 percent from 194,833 persons in 1990 to an estimated 241,513 persons in July 1998. The largest percentage of population, families and owner-occupied units in the assessment area reside in middle-income tracts. As a result, the largest percentage of consumer lending would be expected in these tracts. The lowest level of lending would be expected in low-income tracts, which contains only 1.2 percent of total families and less than one percent of owner-occupied housing units. According to the Department of Housing and Urban Development, the median family income for Ocala MSA County increased by 33 percent from \$26,089 in 1990 to \$34,600 in 1998. Prior to the change in the bank's assessment area, low- and moderate-income families comprised 10.9 percent and 22.5 percent, respectively, of total families. Since the bank expanded its assessment area, low- and moderate-income families comprise 17.9 percent and 19.3 percent, respectively, of total families.

**Employment Statistics**

According to the Bureau of Labor Statistics, the unemployment rates for the bank's assessment area are similar to the state of Florida. Shown below are the unemployment figures for 1997 through 1999. The decreasing unemployment rates in the bank's assessment area are an indication of a strengthening economy.

<b>UNEMPLOYMENT RATES FOR JULY</b>			
	<b>1997</b>	<b>1998</b>	<b>1999</b>
Marion County	4.6%	4.4%	3.5%
State of Florida	4.7%	4.2%	3.8%

According to the Chamber of Commerce in Ocala, Marion County benefits from a steady supply of available labor and a broad economic base. The total work force, including surrounding areas, totals over 130,000 persons. Employment levels in manufacturing are double the statewide average. Although the county has experienced significant real job growth in the wake of the last recession, unemployment rates tend to be equal to or slightly higher than the statewide average. This pattern can be expected to continue due to the population growth caused by migration. As the influx of labor from other locations continues to provide a steady supply of labor, unemployment rates will rise despite real job growth.

**DESCRIPTION OF ASSESSMENT AREA: MARION COUNTY (Continued)**

**Employment Statistics (Continued)**

There are a total of 7,090 businesses located in the bank's assessment area. According to the 1994 County Business Patterns, 35 percent of the businesses are classified in the "services and other" industry type followed by retail trade, which accounts for 28 percent of total businesses. 96 percent of the total number of businesses in the assessment area employ less than 50 persons. According to the Economic Development Council of Marion County, the top ten employers in the MSA are listed below:

**TOP TEN EMPLOYERS**

Marion County School Board	Ocala Regional Medical Center
Munroe Regional Medical Center	Publix Super Market (Combined)
State of Florida (All Departments)	City of Ocala (All Departments)
Marion County Government (All Departments)	Clairson International Corporation
Emergency One, Inc.	Winn-Dixie (Combined)

**Competition**

Friendship Community Bank is located in a competitive market. The competition consists of 13 banks with either a branch or main office in Marion County. These banks consist of state, community, multi-regional, and national banks, many with resources substantially greater than that of Friendship Community Bank. Some of the major banks in the assessment area are AmSouth Bank, Bank of America, First Union Bank, Huntington National Bank, Regions Bank and SouthTrust Bank. In addition, there are finance companies, credit unions, pawnshops, and insurance companies competing for loan customers in Marion County.

<b>DESCRIPTION OF ASSESSMENT AREA: MARION COUNTY (Continued)</b>
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**Housing Statistics**

Housing units in the bank's assessment area totaled 94,567. 63 percent of total housing units are owner-occupied units; 20 percent are rental units; and 17 percent are vacant units. Of the owner-occupied units in the assessment area, only 397 (0.7 percent) are located in low-income census tracts. As a result, a significant amount of real estate lending is not expected in these tracts. Housing throughout the assessment area consists primarily of one-to-four family dwellings (59,735) followed by mobile homes (28,873), and multifamily dwellings (5,380). The median age of the housing stock in Marion County is 28 years. In comparison, the median age of homes in low- and moderate-income census tracts is 30 years and 24 years, respectively. The median age of homes in the assessment area, particularly in low-income census tracts, could possibly indicate a need for home improvement loans.

The median value of homes in the assessment area was \$61,752 indicating that 50 percent of the owner-occupied units have a lesser value. 38.1 percent of the specified owner-occupied units are valued from \$60,000 to \$99,999. In addition, 30.8 percent of the specified owner-occupied units are valued from \$40,000 to \$59,999. Based on the median family income for the assessment area of \$26,089, a low-income family would earn less than \$13,041 annually or \$1,086 monthly. Under a flexible lending program (with a 30 year term, an interest rate of 7.0 percent, a front-end debt-to-income ratio of 28 percent, a loan-to-value of 95 percent, and a deduction of \$100 for taxes and insurance), a low-income family could afford a mortgage loan of up to \$30,709 with a home purchase price of up to \$32,325. Only 16.8 percent of the specified owner-occupied housing units are valued at less than \$40,000. According to bank management and community contacts, very few homes of this value have been available for sale in Marion County in the previous year.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Loan-to-Deposit Ratio Analysis

The average loan-to-deposit ratio for the 10 quarters ending June 30, 1999 was 53.0 percent. This ratio is slightly higher than the bank's LTD ratio at the preceding examination of 48.8 percent. During the 10 quarters ending June 30, 1999, the bank's loan-to-deposit ratio reached a high of 59.1 percent (in the quarter ending September 30, 1999) and a low of 44.6 percent (in the quarter ending March 31, 1999). Since the previous examination, net loans outstanding increased by \$4.4 million. However, total deposits increased by \$14.4 million for the same time period.

Friendship Community Bank's average loan-to-deposit ratio was compared with four competitors in Marion County of similar asset size. The four competitors have average loan-to-deposit ratios ranging from a high of 83 percent to a low of 25 percent. Friendship Community Bank's average loan-to-deposit ratio ranked 3<sup>rd</sup> among these financial institutions. As stated earlier in the "Description of Institution" on page 7, the bank faces strong competition for loans from large financial institutions that can offer more flexible lending programs. In addition, these large financial institutions have extensive branch networks. The bank also faces strong competition from mortgage companies and credit unions. Considering the bank's average loan-to-deposit ratio has increased by 4.2 percentage points since the previous examination, net loans outstanding have increased by \$4.4 million, and the high level of competition in the assessment area, the bank's average loan-to-deposit ratio meets standards for satisfactory performance.

Lending in the Assessment Area

64 residential real estate loans originated from January 1, 1998 through June 30, 1999 were sampled for the CRA analysis. These loans were reviewed to determine the bank's level of lending inside its assessment area. The table on the following page shows the percentage of lending inside and outside the bank's assessment area based on the sampled residential real estate loans.

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

<b>LENDING INSIDE AND OUTSIDE ASSESSMENT AREA</b>				
<b>Loan Type</b>	<b>IN</b>			
	Number	Percent	\$ (000s)	Percent
Residential	59	92.2%	\$2,550	86.3%
<i>Total In</i>	59	92.2%	\$2,550	86.3%
	<b>OUT</b>			
	Number	Percent	\$ (000s)	Percent
Residential	5	7.8%	\$405	13.7%
<i>Total Out</i>	5	7.8%	\$405	13.7%
	<b>TOTAL IN + OUT</b>			
	Number		\$ (000s)	
Residential	64		\$2,955	
<i>Total</i>	64		\$2,955	

A substantial majority of the loans were originated inside the bank's assessment area. 92.2 percent of the number of loans and 86.3 percent of the dollar amount of the loans were originated inside the bank's assessment area. This level of lending inside the bank's assessment area exceeds the standard for satisfactory performance.

Lending to Borrowers of Different Incomes

The bank's distribution of loans to borrowers of different incomes meets standards for satisfactory performance. The following table displays the distribution of the 59 sampled loans originated in the bank's assessment area by income level of the borrowers.

<b>RESIDENTIAL LENDING</b>		
<b>Borrower Income Level</b>		
Low-Income	4	6.8%
Moderate-Income	14	23.7%
Middle-Income	21	35.6%
Upper-Income	20	33.9%
Income Not Available	0	0.0%
<i>Total</i>	59	100.0%

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

As depicted in the table, the majority of the loans were originated to middle- and upper-income borrowers who comprise 62.8 percent of the family population. The percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the assessment area. However, the percentage of loans originated to low-income borrowers is below the percentage of low-income families in the assessment area. The low lending percentage could be partially attributed to the percentage of families residing below the poverty level that are classified as low-income families. In Marion County, 10.8 percent of total families have incomes below the poverty level. Based on a statistical analysis, the likelihood that families with incomes below the poverty level are also low-income families was 99 percent (Borrower income level is based on family income only, where poverty level is based on family income and the number of persons in the family). Typically, families below the poverty level experience great difficulty qualifying for traditional mortgage products. If these families were considered non-bankable for mortgage loan products and excluded from families classified as low-income, then low-income families would comprise only 7.1 percent of total families. Thus, the lending percentage of loans to low-income families would compare favorably to the percentage of low-income families.

Geographic Distribution of Loans

The table below shows the geographic distribution of the sampled loans. As expected, no loans were originated in low-income census tracts. These tracts contain less than one percent of the owner-occupied housing units in the assessment area. In addition, bank management stated that little or no construction of housing is occurring in these tracts. The lack of lending in moderate-income census tracts can be attributed to the unfamiliarity of the residents in moderate-income census tracts with Friendship Community Bank. Prior to the opening of the bank's branch office and the corresponding enlargement of the bank's assessment area late in the review period, there were no low- or moderate-income census tracts in the assessment area. In addition, the high level of competition by larger financial institutions with more extensive branch networks contributed to the bank's lack of lending in low- and moderate-income census tracts. Many of the bank's competitors have branches in or bordering on low- and moderate-income communities. The bank's geographic distribution of loans is considered adequate.

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

Geographic Distribution of Loans (Continued)

<b>GEOGRAPHIC</b>		
<b>Tract Income Level</b>	<b>Residential</b>	
	Low-Income Tracts	0
Moderate-Income Tracts	0	0.0%
Middle-Income Tracts	54	91.5%
Upper-Income Tracts	5	8.5%
<i>Total</i>	<i>59</i>	<i>100.0%</i>

Complaints

No complaints regarding the bank's CRA performance have been received since the previous examination.

Compliance with Antidiscrimination Laws

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or the use of illegal credit practices was noted during the review of bank loan files, policies, and procedures. No practices that would discourage applicants intentionally or unintentionally were identified during the examination.