



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 20, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage National Bank
Charter Number 23059
619 12th Street
Lawrenceville, Illinois 62439**

**Office of the Comptroller of the Currency
Evansville Duty Station
P.O. Box 20130
Evansville, Indiana 47708**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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 Heritage National Bank for the time period of December 6, 1993 through May 20, 1997. This document was prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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

Heritage National Bank (HNB) makes credit opportunities available to all individuals, regardless of income level, consistent with the safe and sound operation of the bank. A majority of the bank's loans are extended to individuals living in Lawrence County, IL and Knox County, IN.

DESCRIPTION OF INSTITUTION

Heritage National Bank (HNB) is a \$17 million institution in Lawrenceville, IL. Lawrenceville is a rural community in Southeastern Illinois, located in Lawrence County. The bank is owned by HBancorporation, Inc., a one-bank holding company. HNB has not engaged in any merger or acquisition activities and there are no legal impediments which would hinder the bank's ability to help meet community credit needs.

HNB is a full-service lender focusing on real estate, small business, and small farm lending. A breakdown of the loan portfolio as of March 31, 1997 is as follows: real estate loans represent 68% of the loan portfolio (of which 25% were loans secured by 1-4 family residential mortgages), commercial loans 23%, agricultural loans 4%, and consumer loans 4%.

DESCRIPTION OF HNB'S ASSESSMENT AREA

The bank's assessment area (AA) includes Lawrence County, IL and Knox County, IN. Lawrence County has a population of 15,972. The county is divided into 5 Block Numbering Areas (BNAs), two are designated middle-income and three are designated moderate-income areas. The statewide Non-MSA median family income in Illinois is \$37,600. Borrowers with less than 50% of the median family income amount are considered low-income, 50%-80% moderate-income, 80%-120% middle-income, and greater than 120% upper-income.

Knox County has a population of 39,884. The county is divided into 10 BNAs, two are designated moderate-income areas, seven are middle-income areas and one is an upper-income area. The statewide Non-MSA median family income for Indiana is \$39,000.

Competition among local financial institutions is strong. Competition in Lawrence County is provided by one credit union and three national banks in Lawrenceville, IL. Additional competition consists of one national bank in Bridgeport, IL and two national banks in Sumner, IL. The bank's competition in Knox County is provided by four national banks, one savings and loan, and one credit union in Vincennes, IN.

The area surrounding Lawrenceville is rural. Businesses in small surrounding towns offer moderate employment and economic support. The local economy is stagnant, but stable, and is heavily dependent on agriculture, oil production, and coal mining. The current unemployment rate for Lawrence County is 10.9% compared to the Illinois state unemployment rate of 5.3%. The town's largest employers are Golden Rule Insurance Company, Lawrence County Memorial Hospital, and Rucker's Wholesale and Service Company.

The current unemployment rate for Knox County is 3.5% compared to the Indiana state unemployment rate of 4.1%. The major employers in Knox County are Vincennes University, Good Samaritan Hospital, and the Knox County School District.

A community contact with the Executive Director of the Lawrence County Chamber of Commerce was made to determine what the needs of the community are and how well the bank is helping meet these needs. The contact stated that the community's primary needs are industry and jobs. The community's credit needs are small business loans, consumer loans, and affordable housing. It was the contact's opinion that the bank is helping to meet the needs of the community. The contact noted that the bank is very active in community development and improvement activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Heritage National Bank's Community Reinvestment Act (CRA) performance is satisfactory.

Loan to deposit ratio:

The bank's average loan to deposit ratio since the 1993 CRA examination is 105%. This exceeds the loan to deposit ratio of all similarly situated banks. This performance has remained steady over the past three years.

Please refer to Table 1 for a comparison of HNB's loan-to-deposit ratio to the three other competitor national banks in the local area. The banks vary in size from \$17 million to \$83 million. HNB is the smallest bank, but ranks highest in the loan-to-deposit ratio comparison of the local commercial banks.

Table 1 Net Loans to Total Deposits				
Bank	12/31/94	12/31/95	12/31/96	3 Year Average
Heritage National Bank, Lawrenceville, IL	110%	102%	121%	111%
First National Bank, Sumner, IL	97%	92%	100%	96%
First National Bank, Bridgeport, IL	55%	69%	65%	63%
Peoples National Bank, Lawrenceville, IL	47%	54%	61%	54%

Lending in assessment area:

The extent of lending inside the bank's AA exceeds the standards for satisfactory performance. Management performs an analysis of their loan portfolio to determine which loans are within their assessment area. This analysis reveals that 90% of the bank's loans in its \$11 million loan portfolio are in the bank's assessment area.

Geographic distribution of loans:

The OCC analyzed a sample of 18 real estate and 14 consumer loans that were originated during the prior twelve month period. This was done to determine the distribution of these loans throughout the BNAs in Lawrence and Knox County. Our review noted that the bank lends to consumers in the majority of the geographies within their AA, and they lend to geographies of all income levels.

Of the loans sampled, 29 (91%) were made in the bank's AA. (This verifies the accuracy of the bank's above mentioned assessment area analysis.) There were 13 (45%) loans made in moderate-income BNAs. There were 2 (7%) loans made in the upper-income BNA. The remaining 14 (48%) loans were made in middle-income BNAs.

Lending to borrowers of different incomes and to businesses of different sizes:

A review of the above mentioned loan sample was also done to determine that the bank is lending to borrowers of all income levels. The review of lending patterns concluded that the bank has a satisfactory record of lending to consumers of all income levels.

Please refer to Table 2 on the next page for a breakdown of loans made by borrower income levels.

Table 2 Loan Breakdown by Income Level		
Income Level of Borrowers	Number of Loans Made in Income Level	Percentage of Loans Made in the Assessment Area
Low-Income Borrowers (<50% of Median Family Income)	3	10%
Moderate-Income Borrowers (50-80% of Median Family Income)	5	17%
Middle-Income Borrowers (80-120% of Median Family Income)	8	28%
Upper-Income Borrowers (120% of Median Family Income)	13	45%

The majority of the bank's commercial loans in their AA are made to small businesses. Of the commercial loans made in the assessment area 9 of the 12 (75%) were to businesses that had annual revenues of less than \$1,000,000 or to small farms with revenues less than \$500,000.

Response to complaints:

No complaints have been received since the previous examination.

Compliance with antidiscrimination laws:

We tested the bank's compliance with the Equal Credit Opportunity Act and the Fair Housing Act. We identified no violations of the substantive provisions of these antidiscrimination laws and regulations.