



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 23, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage Bank, National Association
Charter Number 18269**

**101 North Main Street
Holstein, Iowa 51025**

**Office of the Comptroller of the Currency
Midwestern District
117 Pierce Street, Suite 100
Sioux City, Iowa 51101**

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 CRA performance of **Heritage Bank, National Association, Holstein, Iowa**, prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of April 23, 1997. 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.

- The bank's loan-to-deposit ratio compares favorably to other banks in the region.
- The bank's lending shows reasonable penetration among low-income and moderate-income individuals and to farms and businesses of different sizes.
- A substantial majority of the bank's loan originations are to borrowers within its CRA assessment area.

The following table indicates the performance level of Heritage Bank, National Association with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>HERITAGE BANK, NATIONAL ASSOCIATION</u> 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	Analysis is not meaningful.		
Response to Complaints	No complaints were received since the prior exam.		

DESCRIPTION OF INSTITUTION

Heritage Bank is a \$115 million bank headquartered in Holstein, Iowa. It also has branches in Aurelia, Lytton, Alta, Anthon, Cushing, and Sioux City, Iowa. The bank is part of a two-bank holding company with an affiliate bank located in Willmar, Minnesota. Drive-up facilities are available in Holstein, Aurelia, Alta, and Anthon. The bank also provides ATMs at its Holstein location and a convenience store in Correctionville, Iowa.

Holstein is located in north central Ida County. The bank's branches are scattered throughout the surrounding region including the counties of Cherokee, Buena Vista, Calhoun, Sac, and Woodbury. Except for the Sioux City branch, the branches are found in primarily small, agricultural-based communities. Employment opportunities relate primarily to agriculture with some diversification provided through local manufacturing companies. The bank's smallest branch is located in Sioux City, a large retail and medical center, with an estimated population of around 100,000.

The bank is primarily an agricultural bank with 67 percent of its loan portfolio *dollar volume* in agricultural-related loans, 14 percent in commercial loans, 13 percent in residential real estate loans, and 6 percent in other consumer loans. Also, 60 percent of the bank's loan originations since the previous CRA exam are agricultural loans.

The bank is a full service financial institution. Individuals can refer to the bank's CRA Public File for a list of the specific products available from the bank. The last CRA examination was July 26, 1994. There are no legal impediments or other factors, including the financial condition of the bank, which hinder the bank's ability to fulfill its CRA obligation.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area (AA) consists of Cherokee, Ida, and Sac counties and portions of Buena Vista, Calhoun, and Woodbury counties. The AA consists of 15 contiguous Block Numbering Areas (BNAs), all located in the preceding counties with the exception of Woodbury. The Woodbury County portion of the AA consists of 11 contiguous census tracts located in the Sioux City Metropolitan Statistical Area (MSA). All of the bank's BNAs are middle income and the census tracts include one low-income, six middle-income, three upper-income, and one non applicable as it is industrial in nature.

Iowa's statewide nonmetropolitan median family income for 1997 is \$37,000. This relates to the bank's portion of the AA containing BNAs. Iowa's 1997 metropolitan median family income is \$39,400 which correlates to the portion of the AA in Woodbury County.

The bank faces heavy competition with 36 community banks chartered in the bank's surrounding counties not including local credit unions and larger regional banks. The bank plays a much less significant role in Sioux City which is served by numerous other financial institutions.

The primary credit needs of the area are small farm and business credit, and affordable housing. We verified this through discussions with bank management and employees who are active throughout the various communities. We also discussed this with our community contacts. The bank is perceived as doing what it can to support its communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Analysis

The bank's quarterly average loan to deposit ratio since the last CRA examination is 87 percent. This ratio compares favorably to other banks in the region. Using fourth quarter 1996 call report information, the other 36 community banks chartered in the six county region have ratios ranging from 11 percent to 96 percent with the average being 62 percent.

Lending in Assessment Areas

A substantial majority of the bank's loans are originated within its AA. A bank generated report for all loans originated during 1996 showed that 91 percent of the number of loans and 84 percent of the dollar volume of loans were within the bank's AA. In addition, 88 percent of our sample of 30 agricultural, 29 commercial, 30 consumer, and 30 residential real estate loans were within the bank's AA.

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

The bank's lending practices reflect a reasonable penetration among low- and moderate-incomes individuals and to farms and businesses of different sizes. The following tables are derived from loan sample information mentioned above, using the income and revenue information when available. They show that 21 consumer and real estate loans were to low- and moderate-income individuals. This table also shows reference to the family income levels throughout the AA. The second table shows 50% of commercial/agricultural loans were to businesses and farms with annual gross revenues less than \$100 thousand.

Consumer/Real Estate	# of loan originations	% of total originations	HUD family income breakdown for AA
low-income	11	22%	17%
moderate-income	10	20%	20%
middle-income	13	27%	26%
upper-income	15	31%	37%
Total	49	100%	100%

Commercial/Agricultural
 originations

loan originations

% of total

gross revenues < \$100,000	25	50%
\$100,001 to \$250,000	15	30%
\$250,001 to \$500,000	5	10%
> \$500,000	5	10%
Total	50	100%

Geographic Distribution of Loans

An analysis of the bank's geographic distribution of lending in the AA would not be meaningful as all of the BNAs are middle-income and all but one of the census tracts are middle- or upper-income. A census tract analysis would also not be meaningful as the bank's lending volume in Sioux City is not substantial with only 3% of their loan volume at that branch.

Record of Compliance with Antidiscrimination Laws

The fair lending review did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations.