



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 3, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heartland National Bank
Charter Number 23773**

**320 U.S. Highway 27 North
Sebring, FL 33870**

**Comptroller of the Currency
North Florida Field Office
8375 Dix Ellis Trail, Suite 403
Jacksonville, Florida 32256**

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 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.

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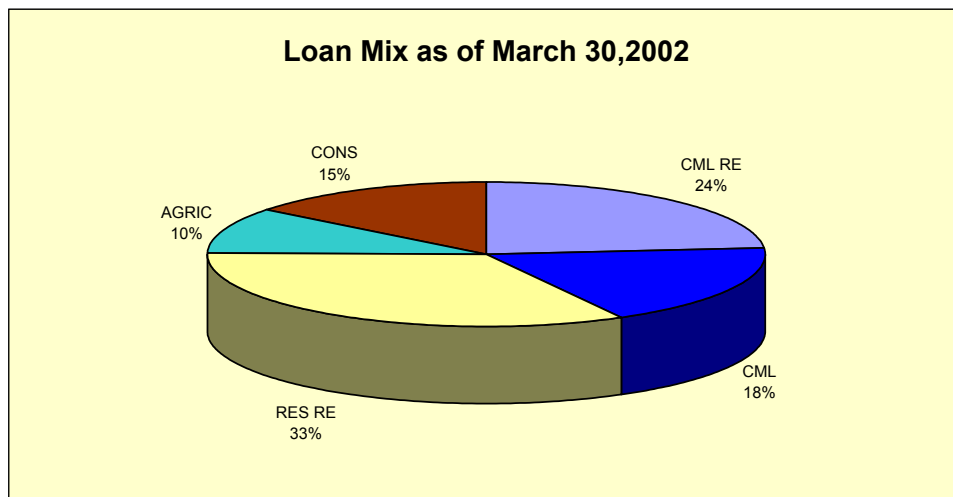
INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- Heartland National Bank (HNB) has a reasonable loan-to-deposit ratio.
- A substantial majority of loans are made within the assessment area.
- The bank has a satisfactory record of lending to borrowers of different incomes and businesses of different sizes.
- The geographic location of loans to individuals and businesses reflects an adequate distribution across the assessment area.

DESCRIPTION OF INSTITUTION

HNB is headquartered in Sebring, Florida and has three offices located in Highlands County. There are ATMs at each respective location. The bank began operation on September 7, 1999, and is a wholly owned subsidiary of Heartland Bancshares, Inc., a one-bank holding company. There have been no significant corporate changes since the bank was organized. As of March 31, 2002, HNB had total assets of \$75 million. Net loans represent 53% of total bank assets. The bank's primary lending products are business loans (commercial and commercial real estate) and residential real estate mortgages, which represent 42% and 33% of total loans, respectively. Illustrated below is a breakdown of the bank's loan portfolio mix by significant product categories as of March 31, 2002.



Loan Mix Chart details: Commercial real estate loans (CML RE); Commercial non-real estate loans (CML); Residential real estate (RES RE); Agriculture (AGRIC); Consumer personal loans (CONS). Note that RES RE includes home equity loans and business purpose loans where the borrower's home is used as collateral.

There are currently no financial, legal, or other impediments to the bank's ability to meet community credit needs. The evaluation period for this review is September 1999 through June 2002. This is the bank's first CRA evaluation.

DESCRIPTION OF ASSESSMENT AREA

HNB's assessment area (AA) consists of 17 block numbering areas (BNAs) that encompass Highlands County. The county is located in the center of Florida, approximately 45 miles south of Orlando and is not part of a metropolitan statistical area (MSA). The assessment area has a total population of 68,432 based on the 1990 Census. And, there are 21,526 families in the assessment area. Depicted in the chart below, is the breakdown of the BNA designations and the distribution of families by income levels within the assessment area. This is based on the median family income of \$25,874 for the non-MSA statewide area within Florida, obtained from the 1990 U.S. Census.

	BNAs		Families
	By #	By %	In AA
Low-Income	NA	0%	18.70%
Moderate-Income	2	12%	20.90%
Middle-Income	15	88%	26.80%
Upper-Income	NA	0%	33.59%
Totals	17	100.0%	100.0%

As noted above, there are no low-income or upper-income block numbering areas in Highlands County. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography. The bank's size and office locations support the designated assessment area.

The assessment area has a significant percentage of retirees with approximately 33% of the population over 65 years of age. Less than 14% of the population lives below the poverty level and 54% receive social security income. Data from the Department of Housing and Urban Development (HUD) estimates the 2002 median family income for the non-MSA statewide area to be \$40,200. Seventy-four (74%) of all housing units are occupied, while 57% are owner-occupied. Retail trade, services, tourism and agriculture largely support the local economy. The tourism and service industry largely relate to either the recreational activities (i.e., golf, tennis and water activities) or the sponsored racing and training events at Sebring International Raceway.

The largest private employers include Florida Hospital and Highlands Regional Hospital. However, per information from the Greater Sebring Chamber of Commerce, the primary source of economic activity is derived from citrus, cattle and dairy operations. Citrus accounts for \$200 million in annual economic benefits to the area. Highlands County is the third largest county in Florida for growing citrus. The citrus industry employees between 2,500 - 3,000 people on a year-round basis and nearly doubles during harvesting seasons in October through May. Additionally, the county ranks first in number of beef cows and second in beef cows and calves in the state. This resulted in over \$31 million in annual gross sales.

Banking competition is strong in within the county with 27 banking offices. During our examination, we met with a local housing organization to identify credit needs within the community. Based on this information, we determined primary needs include affordable housing and consumer loans with flexible programs as well as credit counseling.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

■ **Loan-to-Deposit Ratio - Meets the Standard for Satisfactory Performance**

The bank's average loan-to-deposit (LTD) ratio is satisfactory considering the bank has only been opened for approximately three years. The bank's quarterly average LTD ratio from December 1999 through March 2002 is 43%. For comparison, we analyzed the average LTD ratios for banks headquartered in Florida with total assets less than \$250 million, which opened within a similar timeframe (June through December 1999). There were 18 institutions that met these criteria. Their quarterly average LTD for the same time period was 67%. It should be noted the bank's LTD as of March 31, 2002 had increased to 60%. Additionally, we also considered that the bank originates residential loans, which are sold immediately in the secondary market and are therefore not reflected in this ratio. Based on bank prepared information for 2001, and 2002 year to date, the bank has originated 36 of these loans totaling \$3,961,810. Including this amount would increase the LTD ratio to approximately 65% as of March 31, 2002.

■ **Lending in Assessment Area - Exceeds the Standard for Satisfactory Performance**

The bank makes a substantial majority of its loans within the assessment area. We based our conclusions on a sample of the bank's two primary loan products (residential and business loans). First, we performed an analysis using 40 residential loans originated in 2001-2002. This included loans to purchase and refinance traditional single family homes as well as mobile homes, as the bank makes a significant number of these types of loans. We also sampled 20 business loans made within this same time frame. Our results for both loan types are summarized below.

By Loan Type	Loans Sampled		Loans in the Assessment Area	
	Total Number	By Dollar Volume	By Number	By Dollar Volume
Residential Loans	40	\$2,692,593	95%	93.73%
Business Loans	20	\$2,180,721	90%	85.10%

■ **Lending to Borrowers of Different Incomes and Businesses of Different Sizes - Meets the Standard for Satisfactory Performance**

The bank's record of lending to borrowers of different incomes is satisfactory given the demographics of the community. This analysis used the aforementioned sample of residential mortgage loans originated within the assessment area. We compared the income distribution of the bank's borrowers based on our sample to the income distribution of families within the assessment area. The borrowers were categorized into income groups based on the HUD non-MSA statewide median family income of \$40,200 for the year 2002. The distribution of families in the assessment area is based on 1990 U.S. Census Bureau data. This analysis is depicted in the following table.

Geographic Distribution by # and \$ Volume of Loans			
Income Category	Residential Loan Analysis		Families in AA
	By #	By \$	
<i>Low-Income</i>	7.89%	1.74%	18.70%
<i>Moderate-Income</i>	28.95%	14.51%	20.90%
<i>Middle-Income</i>	26.32%	19.26%	26.80%
<i>Upper-Income</i>	36.84%	64.50%	33.59%
Total	100.00%	100.00%	100.00%

While the analysis indicates some disparity with lending to low-income families in the assessment area, this is due to the type of loan product (residential loans) analyzed. Per discussions with management, the bank is providing additional credit to low-income borrowers in the form of consumer purpose loans in a manner which is consistent with the needs of the community. As discussed in the demographic section of this evaluation, the assessment area contains a significant number of retirees. These individuals, while considered low-income, typically do not have a great need for mortgage related products. Our analysis also indicates the bank has a satisfactory record of making residential loans to moderate-income individuals considering both the number and dollar amount of loans originated.

The bank has a satisfactory record of lending to businesses of different sizes. This was based on an analysis of the sampled 20 business loans originated within the assessment area in 2001 and 2002 year to date. We determined that the bank makes loans to businesses of varying sizes, but primarily to small businesses. The analysis showed 95% of the total number of business loans sampled, and 91% based on respective loan amounts, were to small businesses (those with total revenues less than \$1 million). In comparison, economic data supports that 95% of all businesses operating within the assessment area are considered small businesses.

■ **Geographic Distribution of Loans - Meets the Standard for Satisfactory Performance**

The geographic distribution of loans reflects a satisfactory penetration of geographies within the assessment area. For this analysis, we first compared the geographic distribution of the residential loans sampled within the assessment area to the level of owner-occupied housing within each geographic area. The level of owner-occupied housing is an indicator of the opportunities available for residential mortgage financing. The lower the level, the fewer opportunities available for home improvements, refinances or other mortgage loans. This factor is also evaluated in the context of the bank's tenure, size and the level of competition in the area. Based on our findings, the bank has a satisfactory record of lending to individuals in different geographies based on BNA income level. The results of our analysis are summarized in the following table.

Geographic Distribution by # and \$ Volume of Loans			
BNA Category	Residential Loan Analysis		% of OO Housing
	By #	By \$	
	<i>Low-Income</i>	N/A	N/A
<i>Moderate-Income</i>	5.26%	7.42%	8.53%
<i>Middle-Income</i>	94.74%	92.58%	91.47%
<i>Upper-Income</i>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total	100.00%	100.00%	100.00%

Next, we analyzed the geographic distribution of business loans. For this analysis, we again used the sample of business loans originated within the assessment area during 2001-2002 year to date. We noted the geographic location of the business or property purchased, depending on the purpose of the loan. For comparison, we reviewed economic data that shows the geographic location of businesses in each assessment area. Based on our findings, which are depicted below, the bank has a good record of lending to businesses in different geographies.

Geographic Distribution by # and \$ Volume of Loans			
BNA Category	Business Loan Analysis		% of Businesses
	By #	By \$	
<i>Low-Income</i>	N/A	N/A	N/A
<i>Moderate-Income</i>	10.00%	14.16%	6.84%
<i>Middle-Income</i>	90.00%	85.84%	93.16%
<i>Upper-Income</i>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total	100.00%	100.00%	100.00%

■ **Response to Complaints - Not Applicable**

We reviewed records of consumer complaint regarding HNB made to our agency and those maintained by the bank in the public file. There were no complaints made relative to the Community Reinvestment Act during this evaluation period.

■ **Fair Lending Review - Not Applicable**

An analysis of recent public comments, consumer complaint information as well as residential and small business data was performed according to the OCC's risk based fair lending approach. Based on our analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted this year in connection with the CRA evaluation. Consequently, the bank has not ever been subject to a comprehensive fair lending examination, as this is the bank's first CRA evaluation.