



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 18, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Headland National Bank
Charter Number 13752

40 Main Street
Headland, AL 36345

Office of the Comptroller of the Currency

Georgia Field Office
3 Ravinia Drive, Suite 550
Atlanta, GA 30346

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.

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

The Headland National Bank's performance rating is supported by the following:

- a satisfactory loan-to-deposit ratio;
- a substantial majority of loans are in the assessment area;
- a satisfactory penetration of loans among borrowers of different incomes and to businesses of different sizes; and
- a satisfactory penetration of loans to borrowers in different geographies.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of The Headland National Bank's ability to meet the credit needs of the communities in which it operates. Examiners conducted a full-scope review of the bank's Assessment Area (AA), or Henry, Houston, and Dale Counties. Henry and Houston counties are part of the Dothan, AL MSA. This evaluation covered the period of March 2003 to December 2007. We also sampled 30 commercial loans originated from January 2006 to March 2008. Loan performance was determined by analyzing the bank's primary products including home purchase, home improvement, home refinance, and commercial loans.

DESCRIPTION OF INSTITUTION

The Headland National Bank (HNB) is a \$106 million community bank headquartered in Headland, AL. The business strategy of the bank is to maintain a market-oriented program that emphasizes the bank's quality services and profitable, sound operations. HNB is majority owned by HNB Holding Company, a one-bank holding company. HNB is comprised of two full-service offices, the main office and a branch on Highway 431 that opened in April 2007. Both offices are in Henry County, AL and both have automated teller machines (ATMs). HNB also has a stand alone ATM located in a convenience store on U.S. Highway 431. All of the bank's ATMs are non-deposit taking ATMs. HNB offers a variety of products including real estate, consumer, agricultural, and commercial loans; as well as various deposit accounts for consumers and businesses. The bank also responds to community needs through making numerous small loans (less than two thousand dollars) and farm loans. Long-term mortgage lending is housed at the bank's branch. These mortgages are sold in the secondary market.

As of December 31, 2007, the bank's loan portfolio totaled approximately \$71 million. The percentage of net loans to total assets is 66 percent. Lending activity is centered in residential real estate loans (23%), non-farm and non-residential loans (20%), construction and land development loans (17%), commercial and industrial loans (15%), loans to individuals (12%), agriculture loans (8%), and other types of loans (5%).

No legal or financial constraints or other factors impede HNB's ability to meet the credit needs of its AA. HNB received a "Satisfactory" rating at the last CRA review dated January 6, 2003.

DESCRIPTION OF ASSESSMENT AREA

HNB's AA is comprised of Henry, Houston, and Dale Counties. Since our last exam, the Office of Management and Budget redefined the Dothan, AL MSA to consist of Henry, Houston, and Geneva Counties. HNB will make necessary adjustments to their AA. The current AA does not arbitrarily exclude any low- and moderate-income tracts.

HNB's AA consists of 41 census tracts; 1 low-income census tract, 7 moderate-income census tracts, 27 middle-income census tracts, and 6 upper-income census tracts. The AA population is 154,226, with 43,736 total families and 61,282 households. The weighted average median family income is \$41,684. Sixty-one percent of housing units in the AA are owner occupied, while 27 percent of housing units are renter occupied. Twelve percent of the AA housing units are vacant. Additionally, 16 percent of total households in the AA are living below the poverty level, and unemployment is at 3 percent. The following table highlights the demographic composition of the bank's AA.

Table 1

Demographic and Economic Characteristics of Assessment Area (AA)	
Population	
Number of Families	43,736
% Low Income Families	20.79 %
% Moderate Income Families	16.19 %
% Middle Income Families	20.74 %
% Upper Income Families	42.27 %
Geographies	
Number of Census Tracts	41
% Low Income Census Tracts - (1)	2.44 %
% Moderate Income Census Tracts - (7)	17.07 %
% Middle Income Census Tracts - (27)	65.85 %
% Upper Income Census Tracts - (6)	14.63 %
Median Family Income (MFI)	
2000 MFI for AA	\$41,684
2007 HUD Adjusted MFI	\$47,768
Economic Indicators	
Unemployment Rate	2.75%
2000 Median Housing Value	\$71,231
% of Households Below Poverty Level	16.34 %

Source: 2000 United States Census data; HUD updated income data

The main industries in the AA include manufacturing, retail trade, and healthcare. Major employers in Henry County include West Point Stevens, Henry County Board of Education, Great Southern Wood, Cutler Egg Products, and Golden Peanut Company. Other Dothan area employers include Sony, Perdue Farms, Michelin Tire Corporation, and Pemco World Aviation. A major employer in Dale County is the U.S. Army; Fort Rucker and the Army Aviation Center.

Competition in the bank's AA is moderate given the number of banks in Headland and surrounding areas. The bank's AA has 26 institutions and 58 total bank offices. Several of these bank offices are branches of large banks. However, only a small portion of these institutions and offices are in Henry County where the bank and its branch are located.

Information obtained from community leaders indicated the primary credit needs in the community are small business loans. The Headland area is going through a transition in its farming community, as several new restaurants and retail outlets are moving into the area. Our contact indicated that financial institutions in the area are providing the necessary resources to fulfill community needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

HNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment area credit needs, and years of existence. The bank's average loan-to-deposit ratio since the last CRA exam in January 2003 is approximately 76 percent. During this period, HNB's quarterly loan-to-deposit ratio ranged from a low of 62 percent in March 2003 to a high of 88 percent in December 2006. HNB's average loan-to-deposit ratio of 76 percent is in line with the average loan to deposit ratio of its two similarly situated peers at 75 percent.

Lending in Assessment Area

Lending levels reflect an outstanding responsiveness to community credit needs. We reviewed the bank's home purchase, home refinance, and home improvement loans and a sample of 30 business loans originated during the evaluation period. A substantial majority of loans we evaluated were granted within the AA. The results of this analysis are highlighted below:

Table 2 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Home Purchase	66	89%	8	11%	74	\$5,156	76%	\$1,614	24%	\$6,770
Home Refinance	34	97%	1	3%	35	\$2,268	94%	\$150	6%	\$2,418
Home Improvement	28	97%	1	3%	29	\$909	98%	\$15	2%	\$924
Business	30	100%	0	0%	30	\$1,061	100%	\$0	0%	\$1,061
Totals	158	94%	10	6%	168	\$9,394	84%	\$1,779	16%	\$11,173

Source: Data reported under HMDA; Sample of loans.

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

Overall, the distribution of home purchase, home refinance, home improvement and business loans to borrowers of different income levels and to businesses of different sizes is satisfactory. In evaluating the borrower distribution of home purchase loans, we considered the number of families that live below the poverty level and the barriers that this may have on home ownership.

The distribution of home purchase, home refinance, and home improvement loans to borrowers of different income levels is reasonable when compared to the demographics of the AA. Although the percentage of home purchase, home refinance, and home improvement loans to low- and moderate-income borrowers is lower than the percentage of low-income and moderate-income families residing in the AA, 16 percent of all families in the AA live below the poverty level according to 2000 Census data. Additionally, 27 percent of housing is renter occupied.

Table 3 - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21%	12%	16%	8%	21%	19%	42%	61%
Home Refinance	21%	10%	16%	10%	21%	27%	42%	53%
Home Improvement	21%	8%	16%	4%	21%	28%	42%	60%

Source: Data reported under HMDA; 2000 United States Census data. Borrower income information was not available for 17.5%, 1.8%, and 7.4% of home purchase, home refinance, and home improvement loans, respectively.

An analysis was performed on 30 business loans originated during the evaluation period. Because of the volume of unknown revenues, we could not make a valid determination of the bank’s lending to businesses of different sizes. However, according to bank management, all but one of the sixteen businesses with unknown revenues were small businesses.

Table 3A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	51%	4%	45%	100%
% of Bank Loans in AA by #	33%	13%	53%	100%
% of Bank Loans in AA by \$	48%	28%	24%	100%

Source: Loan Sample; Dunn and Bradstreet data

Geographic Distribution of Loans

Overall, the distribution of home purchase, home refinance, home improvement, and business loans to borrowers in different geographies is reasonable. Our analysis of lending patterns found no conspicuous gaps of lending within the various census tracts making up the AA.

Table 4 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1%	5%	9%	3%	73%	82%	17%	10%
Home Refinance	1%	3%	9%	15%	73%	82%	17%	0%
Home Improvement	1%	0%	9%	15%	73%	85%	17%	0%

Source: Data reported under HMDA; 2000 United States Census data.

The distribution of business loans to borrowers in different geographies is reasonable, despite no sampled loans found in the low-income census tract. A mitigating factor is the high level of competition near the low-income census tract. There are multiple banks, including several large bank branches, closer to the low-income census tract than HNB. Also, bank management has made several loans to customers with rental properties in the low-income census tract. Finally, a bank director’s insurance business is located in the low-income census tract. The bank finances insurance premiums referred to the bank from the director’s insurance company.

Table 4A - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	6%	0%	14%	20%	59%	73%	21%	7%

Source: 2000 United States Census and Bank Data

Responses to Complaints

No complaints related to CRA performance were received during the evaluation period. This has a neutral impact on the overall CRA rating.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.