



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

August 08, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heartland National Bank
Charter Number 23773

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

Office of the Comptroller of the Currency

4042 Park Oaks Blvd, Suite 240 Tampa, FL 33610

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, and should not 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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Overall CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Major factors supporting the institution's rating:

- Heartland National Bank's average loan-to-deposit ratio (LTD) is reasonable
- A substantial majority of business and residential real estate lending occurs in the assessment area (AA).
- The bank's lending activities show reasonable penetration among businesses of different sizes and to borrowers of different incomes.
- The geographic distribution of lending in the assessment area is reasonable
- The bank's record of community development (CD) loans is satisfactory
- The bank's qualified investments in the AA is poor given its capacity to provide investments.
- An adequate level of CD services was provided.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family

households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report).

These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Heartland National Bank (HNB) began operation on September 7, 1999 as a wholly-owned subsidiary of Heartland Bancshares, Inc., which is a one-bank holding company headquartered in Sebring, Florida. HNB is a single state institution and has four offices located in Highlands County. There are ATMs at each respective location and one additional ATM located at the Sebring Regional Airport.

As of March 31, 2017, HNB had total assets of \$354 million. Net loans of \$152 million represent 43 percent of total assets. HNB offers a variety of loan products, but its primary lending products are business loans and residential real estate (RRE) mortgages. A substantial majority of RRE loan originations are sold in the secondary market. In 2014, 2015, 2016 and year-to-date 2017, the volume of RR loans originations sold in the secondary market was, 88 percent, 71 percent, 77 percent, and 86 percent, respectively. The bank's current three-year strategic plan is focused on maintaining market share by diligently serving the banking needs of its market with current loan and deposit product lines.

Highlands County represents the bank's entire assessment area (AA). Highlands County comprises the Sebring, FL, Metropolitan Statistical Area (42700), which was first established for 2014 Home Mortgage Discloser Act reporting. The county consists of 27 census tracts (CTs). The AA does not contain any low-income CTs. There are 2 moderate-income tracts, 19 middle-income tracts, 3 upper-income CTs and 3 unspecified CTs. At the time of this examination, none of the middle-income CTs were designated by the Federal Financial Institutions Examination Council (FFIEC) as distressed for poverty. As defined by the FFIEC, a nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) An unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of five percent or more over the five-year period preceding the most recent census.

According to Federal Deposit Insurance Corporation's most recent Deposit Market Share Report (dated June 30, 2016), the bank's major competition comes from six institutions within the AA. In addition to HNB, the AA has four large national-market banks, one regional-market bank and a community-market bank operating twenty-six offices with approximately \$1.5 billion in deposits. HNB ranks number one among the group with a deposit market share of 20.55 percent. The second deposit market shareholder is Harbor Community Bank (15.62 percent) followed by Wells Fargo (15.23 percent), Wauchula State Bank (14.59 percent), Bank of America (14.52 percent), Sun Trust Bank (13.83 percent) and TD Bank (5.65 percent). HNB has no deposits outside the AA.

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income (LMI) geography. The bank's size and office locations support the designated AA. Highlands County is located in the center of Florida, approximately 45 miles south of Orlando. Highlands County comprises the Sebring, FL, Metropolitan Statistical Area. Highlands County was created in 1921 along with Charlotte, Glades and Hardee counties when they were separated from Desoto County. Highlands County was named for its terrain. The city of Sebring is the county seat of Highlands and the location of the bank's main office. Sebring is most notable for the Sebring International Raceway, which hosts the 12 Hours of

Sebring auto racing. According to the 2017 County Profile by the Highlands County Economic Development, the top seven number of business establishments for 2016 are Trade/Transportation/Utilities (485), Professional & Business Services (306), Education & Health Services (306), Construction (253), Financial Activities (214), Leisure and Hospitality Services (189), and Natural Resources & Mining (186). The county has a total population of 100,917 for 2016 with a median age of 52.1 years. Six colleges/universities serve the area. The 10 largest major private sector employers, from largest to lowest employer, are Florida Hospital Heartland (healthcare), Wal-Mart (department store), Agero (roadside assistance), Highlands Regional Medical (healthcare), Alan Jay Automotive Network (automotive dealership), The Palms of Sebring (assisted living), Lake Placid Health Care (assisted living), Costa Delray (agriculture), Royal Care of Avon Park (health and social services), and Lykes Bros. (agriculture). The 2016 US Census data reports the county contains 40,374 total households, 26,774 family households, 32,267 owner-occupied housing units, 8,107 renter-occupied housing units and 14,463 vacant housing units. Family income is based on the Department of Housing and Urban Development 2016 estimate of median family income of \$42,969 for Metropolitan Statistical areas in the State of Florida.

There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its assessment area. HNB received a "Satisfactory" rating during its prior CRA evaluation, dated July 3, 2014.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated the Bank's CRA performance using Intermediate Small Bank Examination Procedures that include the Lending and Community Development (CD) tests. Lending Test performance included small loans to businesses and home mortgage loans. The Community Development test included an evaluation of the bank's loans, investments and services that met the definition of "community development" under the CRA.

The evaluation period for the Lending Test and the CD Test is January 1, 2014 through March 31, 2017. Our conclusions for community development loans and qualified investments were based on the number and dollar amounts made during the evaluation period. In addition, we considered the level of responsiveness to community credit needs when evaluating CD activity.

In evaluating residential mortgages, we used all loans reported under HMDA for the evaluation period. Loans reported under HMDA include originations of home mortgage loans by the bank and purchases of home mortgage loans from other lenders. For our evaluation of business loan performance, we analyzed a random sample of loans for business purposes originated during the evaluation period, with a minimum sample size of sixty loans. For the analysis of business loans for income and geographic distribution, we evaluated a random sample of sixty loans originated in the AA during the evaluation period.

Data Integrity

This evaluation is based on accurate data. We tested the accuracy of the Bank's HMDA data prior to the beginning of the CRA examination and determined that it was accurate. We verified

that community development loans, investments, and services submitted by Bank management met the regulatory definition for community development. We excluded any activities that did not meet the definition or purpose of community development.

Selection of Areas for Full-Scope Review

Ratings

The bank's overall rating is based primarily on review of performance in the Sebring MSA AA. The AA is the location of the Bank's headquarters and its branch offices. The AA received a full-scope review.

Ratings primarily consider the performance in the AA and activity in the broader statewide or regional area. The evaluation considers the number and dollar volume of community development activities and the responsiveness HNB's CD activity to identified community needs. In completing the analysis, we found that HNB demonstrates satisfactory performance for its AA consistent with the Bank's capacity.

Other

Community credit needs in the assessment area were determined by reviewing recent housing and demographic information and community contacts conducted by the OCC and other bank regulatory agencies in connection with this and other CRA evaluations of Banks operating in the same assessment areas. The community contacts provided an assessment of the community's needs, opportunities in which financial institutions may participate in meeting those needs, and information on the perception of financial institutions' involvement in the community.

As a requirement for CRA evaluations, examiners personally contact community representatives or use recent community contact information from interagency community contact databases to gain insight regarding the credit needs and economic conditions of an assessment area. For the bank's contact information, we relied on data obtained in a contact meeting held on August 14, 2017 with the CEO of a local housing authority. Critical credit needs identified include affordable housing, small business lending and financial literacy.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

The lending test is Satisfactory. HNB's loan-to-deposit ratio (LTD) is reasonable. The bank has a substantial percentage of loans that are made in its AA. The bank's lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration within the AA. The bank's geographic distribution of loans reflects reasonable dispersion within the AA.

Loan-to-Deposit Ratio

HNB's average loan-to-deposit (LTD) ratio of 51.03 percent is reasonable compared to the average ratio of 71.93 percent for similarly situated banks. Similarly situated banks are two banks (2 in Highlands County) in the assessment area with total assets ranging from \$649 million to \$1,875 billion, as of March 31, 2017. The average LTD ratio for the bank and similarly situated banks was calculated and averaged using the deposit ratios for each quarter since the last CRA evaluation on July 3, 2014. The similarly situated banks have average LTD ratios that range from 66.21 percent to 77.65 percent.

Lending in Assessment Area

A majority of residential real estate and business lending occurred in the assessment area. This conclusion is based on an analysis of all HMDA reported loans (550) and a random sample business loans (60) originated during the period from January 1, 2014 to December 31, 2016.

As illustrated in the following Table-1; 94.59 percent by number and 86.12 percent by dollar amount of total residential real estate and business loans originations made during our evaluation period were within the bank's AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	388	95.80	17	4.20	405	38,906	90.70	3,987	9.30	42,893
Improvement	46	92.00	4	8.00	50	2,046	91.96	179	8.04	2,225
Refinance	88	92.63	7	7.37	95	11,562	85.91	1,897	14.09	13,459
Business	55	91.67	5	8.33	60	16,268	76.40	5,025	23.60	21,293
Totals	577	94.59	33	5.41	610	68,782	86.12	11,088	13.88	79,870

Source: HMDA and sample of business loans for the period of January 1st, 2014 through December 31st, 2016

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

The bank's lending activities show reasonable penetration among businesses of different sizes and to borrowers of different incomes. Our conclusion is based on the same sample all HMDA reported loans (522) and a random sample business loans (55) made in the AA as discussed

in the *Lending in Assessment Area* section.

Home Mortgage Loans

In regards to residential real estate lending, Table-2 shows that the percentage of bank loans to low and moderate income borrowers is reasonable, given the performance context. The percentage of residential loans to low and moderate income families is lower than the percentage of low and moderate income families in the AA. The bank solicits residential loans in all areas of the MSA through advertising and referrals. However, the bank sells the majority of residential loans in the secondary market, which dictates qualification requirements. The income and housing costs required for approval could be beyond the means of low and moderate income residents in the AA. Management explained the majority of residential borrowers are dual income families or retirees that exceed the upper income level threshold by household. Given the lack of loan demand in the AA and the secondary market approval qualifications, residential lending to low and moderate income families is reasonable.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Purchase	15.63	2.58	21.26	7.73	24.03	15.46	39.09	64.18
Improvement	15.63	8.70	21.26	19.57	24.03	15.22	39.09	56.52
Refinance	15.63	4.55	21.26	6.82	24.03	23.86	39.09	64.77

Source: HMDA and 2010 US Census

Business Loans

In regards to the business lending, the bank meets the standard for loans in the AA. Table-2A illustrates that the percentage of the bank's business loans to small businesses (those with gross annual revenues of \$1 million or less) is below the percentage of small businesses in the AA. Based on our sample, the bank originated 78.18 percent in total number of loans and 22.66 percent in total dollar volume of loans to small businesses. We consider this performance reasonable based on the lack of loan demand in the AA that limits the bank's ability to lend to small businesses. Table 2B further supports this conclusion by showing that the majority of loans in our sample were in smaller dollar amounts, which supports satisfactory small business lending.

Table 2A - Borrower Distribution of Loans to Businesses in AA

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	93.75	1.79	4.47	100%
% of Bank Loans in AA by #	78.18	21.82	-	100%
% of Bank Loans in AA by \$	22.66	77.34	-	100%

Source: OCC sample of business loans, Dunn and Bradstreet; 2010 US Census

Table 2B - Borrower Distribution of Loans to Businesses by Loan Size in AA

Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	23	41.82	1,143	7.02
\$100,001 - \$250,000	13	23.64	1,940	11.92
\$250,001 - \$500,000	8	14.55	2,281	14.02
\$500,001 - \$1,000,000	6	10.91	4,702	28.90
Over \$1,000,000	5	9.09	6,203	38.13

Source: OCC sample of business loans

Geographic Distribution of Loans

The geographic distribution of lending is reasonable. Our analysis is based on the same source data in the previous tables. The analysis of RRE loans is based on all HMDA reported loans in the AA. The analysis of business loans is based on a random sample of 55 loans originated during our evaluation period in the AA. For RRE lending, more weight was given to home purchase loans, as this was the primary home mortgage product during the evaluation period.

Home Mortgage Loans

The geographic distribution of residential real estate loans is reasonable. The percentage of home purchase loans in moderate-income geographies is slightly lower than the percentage of owner-occupied housing units in moderate-income geographies. This performance is reasonable, as there are limited opportunities to lend in the moderate income geographies with only 7.17 percent of owner-occupied housing units available and seven financial institutions competing to lend in the moderate-income geographies. Table 3 shown below details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract level.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Purchase	0.00	0.00	7.17	5.67	80.12	70.06	12.71	17.27
Improvement	0.00	0.00	7.17	4.35	80.12	89.13	12.71	6.52
Refinance	0.00	0.00	7.17	3.41	80.12	76.14	12.71	20.45

Source: HMDA and 2010 Census

Business Loans

The geographic distribution of business loan originations is reasonable. The percentage of business loan originations in moderate-income tracts is below the percent of businesses in moderate-income geographies. This performance is reasonable, as there are limited opportunities to lend in moderate income geographies with only 8.41 percent of businesses located in a moderate income tract and an overall lack of loan demand in the AA. Table 3A

shown below details the bank's performance as compared to the percentage businesses in each census tract level.

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
	0.00	0.00	8.41	3.64	74.09	78.18	17.13	18.18

Source: OCC sample of business loans and Dunn and Bradstreet

COMMUNITY DEVELOPMENT TEST

The community development test is Satisfactory. The bank's record of community development loans is satisfactory. The bank's qualified investments in the AA is poor given its capacity to provide investments. An adequate level of CD services was provided.

Number and Amount of Community Development Loans

The bank's CD lending in the AA is satisfactory. CD loans in the AA total \$1.5 million and represent 4.29 percent of tier 1 capital. The loans include a \$1.3 million loan to Cornell Colony, LLC, a \$75 thousand loan to Habitat for Humanity and another \$75 thousand between two loans to day care centers within the AA. Cornell Colony is a single family rental home complex built in conjunction with the Avon Park Housing Authority to provide affordable housing to low and moderate income families; the funds were used to develop the complex.

Number and Amount of Qualified Investments

The bank's qualified investments in the AA are poor given its capacity to provide investments. The bank purchased 17 investments totaling \$30.2 million during the evaluation period. Although the investments are of sound quality, none are qualified since they are not within the bank's AA. Only one investment (\$1 million municipal bond in Ft. Lauderdale) was within the state of Florida. The bank is adversely affected by the lack of government or county bond/grant offerings within the AA. President Clinard stated no government or municipal bonds or grants were offered in the AA during the evaluation period.

Extent to Which the Bank Provides Community Development Services

The bank provides a satisfactory level of CD services given its size and capacity to provide such services. Bank personnel have engaged in CD services that are generally responsive to community needs. Activities include service on the boards of local organizations with a primary purpose of CD. Bank personnel have also participated in a small business development program and in the construction of homes through the bank's partnership with Habitat for Humanity.

Responsiveness to Community Development Needs

The bank demonstrated adequate responsiveness to the credit needs through its CD loans and services. As detailed in the Description of the Institution and in the Community Profiles sections, there is a need for affordable housing in the AA. There is also a need for small business lending and financial education. HNB's CD activities are consistent with identified needs. All CD service activities for the evaluation period occurred in the AA.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term "full-scope") and those that received a less comprehensive review (designated by the term "limited-scope").

Time Period Reviewed	Lending Test (excludes CD loans): (January 1, 2014 to March 31, 2017) Investment and Service Tests and CD Loans: (January 1, 2014 to March 31, 2017)	
Financial Institution	Products Reviewed	
Heartland National Bank Sebring, Florida	Home Mortgage Loans Business Loans CD Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Sebring, FL MSA 42700 Highlands County	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

[Complete a Community Profile for each full-scope area.]

42700 Sebring MSA

Demographic Information for Full-Scope Area: 42700 Sebring MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	27	0.00	7.41	70.37	11.11	11.11
Population by Geography	98,786	0.00	9.36	76.87	13.75	0.03
Owner-Occupied Housing by Geography	54,837	0.00	8.51	79.23	12.14	0.12
Businesses by Geography	12,987	0.00	8.41	74.09	17.13	0.37
Farms by Geography	622	0.00	6.75	72.51	19.77	0.96
Family Distribution by Income Level	26,774	0.00	7.48	79.18	13.29	0.05
Distribution of Low- and Moderate-Income Families throughout AA Geographies	9,875	0.00	11.52	78.57	9.77	0.13
Median Family Income						
HUD Adjusted Median Family Income for 2016	\$42,969					
Households Below the Poverty Level	\$43,300					
	15.12%					
			Median Housing Value			\$118,754
			Unemployment Rate			4.84%

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census, and 2016 HUD updated MFI

The Sebring MSA AA comprises Highlands County, Florida. The bank's main office and three branch offices are located in Highlands County, which has no low-income census tracts. The AA does not arbitrarily exclude any LMI geographies.

There are ATMs at each respective location and one additional ATM located at the Sebring Regional Airport.

As of March 31, 2017, HNB had total assets of \$354 million. Net loans of \$152 million represent 43 percent of total assets. HNB offers a variety of loan products, but its primary lending products are business loans and residential real estate (RRE) mortgages. A substantial majority of RRE loan originations are sold in the secondary market. In 2014, 2015, 2016 and year-to-date 2017, the volume of RRE loans originations sold in the secondary market was, 88 percent, 71 percent, 77 percent, and 86 percent, respectively. The bank's current three-year Strategic Plan is focused on maintaining market share by diligently serving the banking needs of its market with current loan and deposit product lines. During the evaluation period the bank has

focused on reducing credit risk while generating loan growth and maintaining profitability.

According to the 2017 County Profile by the Highlands County Economic Development, the top seven number of business establishments for 2016 are Trade/Transportation/Utilities (485), Professional & Business Services (306), Education & Health Services (306), Construction (253), Financial Activities (214), Leisure and Hospitality Services (189), and Natural Resources & Mining (186). Six colleges or universities serve the area. The 10 largest major private sector employers, from largest to lowest employer, are Florida Hospital Heartland (healthcare), Wal-Mart (department store), Agero (roadside assistance), Highlands Regional Medical (healthcare), Alan Jay Automotive Network (automotive dealership), The Palms of Sebring (assisted living), Lake Placid Health Care (assisted living), Costa Delray (agriculture), Royal Care of Avon Park (health and social services), and Lykes Bros. (agriculture).

According to Federal Deposit Insurance Corporation's most recent Deposit Market Share Report (dated June 30, 2016), the bank's major competition comes from six institutions within the AA. In addition to HNB, the AA has four large national-market banks, one regional-market bank and a community-market bank operating twenty-six offices with approximately \$1.5 billion in deposits. HNB ranks number one among the group with a deposit market share of 20.55 percent. The second deposit market shareholder is Harbor Community Bank (15.62 percent) followed by Wells Fargo (15.23 percent), Wauchula State Bank (14.59 percent), Bank of America (14.52 percent), Sun Trust Bank (13.83 percent) and TD Bank (5.65 percent). HNB has no deposits outside the AA.