



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 18, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Hillsdale County National Bank
Charter Number 14062**

**One South Howell Street
Hillsdale, Michigan 49242**

**Comptroller of the Currency
Detroit Field Office
Omni Officentre, Suite 411
26877 Northwestern Highway
Southfield, Michigan 48034**

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.

- Hillsdale County National Bank (HCNB) has demonstrated a reasonable record of lending to individuals of different income levels including low- and moderate-income. Home mortgage lending activity was found to be reasonable over the evaluation period. HCNB's consumer lending activity was considered excellent in helping meet the needs of low- and moderate-income borrowers.
- HCNB has an excellent record of addressing the needs of businesses of different sizes in its two assessment areas (AAs). The bank's performance of lending to businesses with revenue of \$1 million or less reflected excellent penetration.
- The bank has demonstrated a strong level of loan activity within its AAs. A substantial majority of the bank's loans were made within its AAs.
- The geographic distribution of loans reflects a reasonable dispersion throughout the Hillsdale County and Jackson County AAs.
- Two branch offices were opened in Jackson County during the evaluation period. Both offices are located in low- or moderate-income census tracts, which reflects the bank's efforts to serve these segments of the AA.
- The bank's loan-to-deposit ratio was found to be reasonable over the evaluation period.

DESCRIPTION OF INSTITUTION

HCNB is a full-service community bank headquartered in Hillsdale, Michigan. The bank reported total assets of \$256.1 million as of June 30, 2004. This intrastate bank services the south central portion of Michigan's Lower Peninsula.

As of June 30, 2004 the bank reported \$180.2 million in loans. The bank's net loans and leases to asset ratio is 70.6 percent. HCNB offers a broad range of loan products to help meet its community needs. These bank products include residential, home equity, mobile home, consumer, commercial, construction, and agricultural loans. At June 30, 2004, loans secured by single-family residential mortgages comprised \$70.2 million or 39.0 percent of the loan portfolio. It should be noted the bank is active in selling residential mortgages in the secondary market (see loan-to-deposit ratio section). Commercial lending comprised \$76.8 million or 42.6 percent of the loan portfolio. Consumer, construction, and farm related loans represented 12.7 percent, 3.9 percent, and 1.8 percent of the loan portfolio, respectively. To better meet the community needs, HCNB works with various government agencies to offer loan programs to

assist borrowers, who typically would not qualify under traditional loan programs, obtain financing. These loan programs include the USDA's Guaranteed Rural Housing Loans, Farm Service Agency Loans, and the Small Business Administration Loans. The bank also began to offer Michigan State Housing Development Authority loans in the second half of 2004.

HCNB has ten offices including its main office. Nine offices have ATMs on site and the bank operates eight stand-alone ATMs. HCNB has a good record of opening offices and ATMs in low- and moderate-income areas. Since the previous CRA evaluation, HCNB opened three branch offices. The Cortland and Wisner branches are located in Jackson County and the Homer Township branch is located in Calhoun County, Michigan. The Cortland branch, opened in 2001, is located in a low-income census tract and the Wisner branch, opened in 2004, is located in a moderate-income tract. The Homer office opened in 1999 and is located in a middle-income census tract. During this period the bank also installed six ATM machines throughout its AAs, two of which are located in moderate-income tracts. One office was closed during the period. A branch office in Litchfield (Hillsdale County) was closed in 1999 due to the prior acquisition of two branch offices that serve the Litchfield and surrounding market areas. The bank also converted a full-service Hillsdale branch office to a drive-up service only facility due to its close proximity to the main office and low loan demand. These activities did not adversely impact low- or moderate-income areas or the bank's ability to service these communities. The bank created a subsidiary, CNB Lending Services LLC, in July 2002 to originate single-family mortgage loans. The activities of this subsidiary are included in this evaluation.

There are no legal impediments that would adversely affect the bank's ability to serve the community. The previous CRA examination was performed as of March 29, 1999 and resulted in a CRA rating of "satisfactory".

DESCRIPTION OF ASSESSMENT AREA

HCNB has two AAs. The Hillsdale County AA includes all of Hillsdale County, plus one adjacent tract of Calhoun County and two adjacent tracts in Lenawee County. Based on the 2000 U.S. Census this AA is comprised of 15 tracts, all of which are middle-income tracts. The two Lenawee County tracts were previously categorized as moderate-income based on 1990 U.S. Census. This AA is the bank's main market area, with 86 percent of HCNB's deposits and 63 percent of lending activity during the evaluation period. HCNB is one of seven financial institutions with offices located in Hillsdale County. There are two regional banks and five community banks. Based on June 30, 2004 FDIC deposit data, HCNB has a 44.0 percent deposit market share and is ranked first among the financial institutions in the county.

The Jackson County AA is comprised of a large portion of Jackson County. Only four middle-income tracts in the northern section of the county where the bank does not have a presence are excluded. Of the 32 census tracts comprising this AA, two are low-income, eight are moderate-income, 18 are middle-income, three are upper-income, and one census tract is not populated. This AA represents 14 percent of the bank's deposits and 26 percent of lending activity during the evaluation period. Seven regional banks and four community banks operate in Jackson County. Based on June 30, 2004 FDIC deposit data, HCNB is ranked ninth with a two percent market share.

The bank's two AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. The Hillsdale County AA does not extend substantially from the county border to include the small portion of Calhoun and Lenawee Counties.

The total population in Hillsdale County based on the 2000 U.S. Census information was 46,527. Owner occupied housing units represented 69.0 percent of the total housing units. The 2000 HUD adjusted non-MSA statewide median-family income is \$48,300, with eight percent of households in poverty. According to the 1990 U.S. Census, 12 percent of the households were below the poverty level.

Local economic conditions in Hillsdale County are considered weak due to the loss of manufacturing jobs over the past couple years. Hillsdale County's unemployment rate at 7.3 percent as of June 2004 is above the U.S. and State of Michigan unemployment rates of 5.6 percent and 6.5 percent, respectively. Major employers in the area based on 2003 data include Hi-Lex Controls Inc., Hillsdale College, Tenneco Automotive, and Hillsdale Community Health Center.

The population of the Jackson County AA based on the 2000 U.S. Census information was 133,182. The total population living in low-income tracts represents 2.9 percent, 16.7 percent for moderate-income tracts, 67.5 percent for middle-income tracts, 10.6 percent in upper-income tracts, and 2.3 percent in non-categorized tracts. Owner occupied housing units represented 69.0 percent of the total housing units. The 2000 HUD adjusted MSA median-family income is \$57,400, with nine percent of households in poverty. According to the 1990 U.S. Census 13 percent households were below the poverty level.

Jackson County is also experiencing relatively high levels of unemployment. As of June 2004 the rate was 6.8 percent. However, Jackson County economic conditions are considered more stable with a larger employment base. Major employers include Foote Health Systems, Michigan Department of Corrections, Consumer Energy, and Meijer Inc.

In drawing conclusions on the bank's performance, we took into consideration information derived from members of the community. We contacted two housing related organizations and one real estate company. Two contacts in the Hillsdale County AA indicated a concern with the loss of manufacturing jobs, which has impacted the local economy. These contacts indicated a need for affordable housing for both new homeowners and people seeking rental housing. A community contact in the Jackson County AA indicated the community would benefit greatly by more affordable housing for physically and mentally disabled people on fixed-income.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

HCNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the AA's credit needs. HCNB's average quarterly loan-to-deposit ratio for the 22 quarters ending June 30, 2004 was 67.9 percent. While this is low compared to other banks, it is considered reasonable in light of the fact that HCNB is active in selling residential mortgages on the secondary market, as loans sold are not reflected in the loan-to-deposit ratio. During 2002 and

2003 HCNB sold 1,424 residential mortgages totaling \$139 million. We compared the bank's loan-to-deposit ratio to three other banks of comparable asset size serving the Hillsdale County market. The loan-to-deposit ratios of these other banks, based on their most recent CRA Performance Evaluation, ranged from 80 percent to 130 percent. We also considered the loan-to-deposit ratios for similar-sized banks serving the Jackson market area. This included two banks, which reported loan-to-deposit ratios of 84 percent and 94 percent based on their most recent CRA Performance Evaluations.

Lending in Assessment Area

HCNB's record of lending within its AAs is considered strong. Based on a sample of loans, a substantial majority of loans were made in the bank's AAs. The loan sample included loans from each of the bank's primary loan types originated between January 1, 2002 and June 30, 2004. Table 1 below reflects that 89.0 percent of the loan dollars and 90.3 percent of the number of loans sampled during the evaluation period originated within HCNB's AAs.

Table 1 – Lending in HCNB AAs										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Home Loans	1,413	90.40	150	15.00	1,563	134,313	89.09	16,451	10.91	150,764
Consumer Loans	53	88.33	7	11.67	60	549	86.31	87	13.69	636
Business Loans	54	90.00	6	10.00	60	5,767	88.23	769	11.77	6,536
Totals	1,520	90.31	163	9.69	1,683	140,629	89.04	17,307	10.96	157,936

Source: 100 percent sample of home loans from the 2002, 2003, and YTD 2004 HMDA-LAR and random sample of loans from the bank's consumer, and business portfolios originated during 2002, 2003 and YTD June 30, 2004.

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

HCNB's lending distribution to individuals of different income levels including low- and moderate-income reflects a reasonable performance based on the demographics of the AAs. The bank distribution of loans to businesses of different sizes is considered excellent. HCNB's primary borrower product lines as of June 30, 2004 include home, business, and consumer loans. The largest dollar volume of originations was home loans at \$187.4 million, followed by business loans at \$69.9 million. Of the total number, consumer loans represented the largest number volume of loans originated.

Emphasis is given to lending activity in Hillsdale County and the Jackson County AA. The tables below do not include lending activity in the Lenawee and Calhoun County tracts of the Hillsdale AA as those tracts are located in metropolitan statistical areas with demographics that are different from Hillsdale County. While those small segments of the AA are not reflected in the tables, a review of lending data and bank reports reflects that lending activity in both the Lenawee and Calhoun County portions of the Hillsdale County AA has been reasonable.

Home Mortgage Loans

Our home mortgage conclusions are based on the 1,413 home loans originated by HCNB during 2002, 2003, and YTD June 30, 2004. Of these, 311 home loans for \$26.9 million were originated during 2002. Performance for 2002 is based on 1990 U.S. Census data. Loan activity from 2003 and YTD 2004, comprised of 1,102 loans totaling \$107.4 million, is based on 2000 U.S. Census data.

The bank's overall distribution of home loans in the Hillsdale AA reflects reasonable penetration among individuals of different income levels. The percentage of loans made to low-income borrowers was significantly below the percentage of low-income families within the AA. Although penetration of lending to low-income borrowers was poor, performance is somewhat mitigated by the fact that 12 percent of the population is below the poverty line in Hillsdale County based on 1990 census, and 8 percent is below poverty based on 2000 census data. It is especially difficult for this segment of the population to afford and maintain a home, which has an impact on the opportunity to lend to the low-income population of the community. Additionally, lending to low-income borrowers in the Hillsdale County AA improved during 2003 and YTD 2004. The percentage of loans to moderate-income borrowers is in line with the demographics, reflecting good performance to this segment of the community. See Tables 2-1 and 2-2 below.

Table 2-1 Borrower Distribution of Home Loans made during 2002 in Hillsdale County AA as compared to 1990 U.S. Census Data*								
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 Loans	16.83%	4.95%	16.93%	15.32%	23.89%	29.73%	42.35%	49.55%

* 0.45% of loans in the 2002 sample did not have income information available. Source: 2002 HMDA-LAR; 1990 U.S. Census data.

Table 2-2 Borrower Distribution of Home Loans made during 2003 and YTD June 30, 2004 in Hillsdale County AA as compared to 2000 U.S. Census Data**								
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 Loans	14.92%	7.24%	18.55%	17.10%	25.50%	34.21%	41.03%	37.50%

** 3.95% of loans in the 2003 and YTD June 30, 2004 sample did not have income information available. Source: 2003 and YTD June 30, 2004 HMDA-LAR; 2000 U.S. Census data.

The percentage of loans made to low-income borrowers was significantly below the percentage of low-income families within the Jackson County AA. Although performance of lending to low-income borrowers was poor, it is somewhat mitigated by the fact that 13 percent of households were below the poverty level based on 1990 census and 9 percent based on 2000 census. This impacts the opportunity to lend to this segment of the community. Lending to

moderate-income borrowers has been good. While the percentage of loans made in 2002 to moderate-income borrowers was somewhat lower than the percentage of moderate-income families in the AA, performance during the 2003-YTD 2004 period exceeded the demographic. Refer to Tables 2-3 and 2-4 below.

Table 2-3 Borrower Distribution of Home Loans made during 2002 in Jackson County AA as compared to 1990 U.S. Census Data*								
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 Loans	20.62%	11.94%	17.96%	13.43%	23.61%	19.40%	37.81%	47.76%

7.46% of loans in the 2002 sample did not have income information available. Source: 2002 HMDA-LAR; 1990 U.S. Census data.

Table 2-4 Borrower Distribution of Home Loans made during 2003 and YTD June 30, 2004 in Jackson County AA as compared to 2000 U.S. Census Data**								
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 Loans	18.72%	8.22%	19.72%	26.03%	24.32%	24.66%	37.24%	38.35%

*** 2.74% of loans in the 2003 and YTD June 30, 2004 sample did not have income information available. Source: 2003 and YTD June 30, 2004 HMDA-LAR; 2000 U.S. Census data.*

HCNB is an active lender under the Guaranteed Rural Housing Loan Program, which is offered by the U.S. Department of Agriculture. This program helps people in rural areas qualify for home loans, which they may not otherwise qualify for under traditional loan programs. This lending program allows up to 100 percent financing of the home's value. The bank has granted 73 loans, or \$5.3 million under this program since the previous CRA evaluation.

Consumer Lending

HCNB's distribution of consumer loans to borrowers of different income levels in the Hillsdale County AA is excellent. Our conclusion is based on a consumer loan sample of 60 loans, 20 of which were originated in 2002 and represented about \$144,444. Another 20 loans were originated during 2003 and represented about \$232,150, and 20 were loans originated through June 30, 2004 and represented about \$172,175.

The percentage of loans made to low- and moderate-income borrowers compared to the percentage of households in low- and moderate-income categories and demonstrates a strong willingness to meet the community's consumer lending needs. Refer to Tables 3-1 and 3-2 below. Lending to low-income borrowers far exceeded the percentage of households in the Hillsdale County AA identified as low income according to U.S. Census data. Consumer lending to moderate-income borrowers also represents an excellent distribution as the percentage

of loans to moderate-income borrowers exceeded the percentage of households identified as moderate-income.

Table 3-1 Borrower Distribution of Consumer Loans made during 2002 in Hillsdale County AA as compared to 1990 U.S. Census Data								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	20.89%	31.58%	14.51%	15.79%	18.84%	36.84%	45.76%	15.79%

Source: Random loan sample of 2002 originations; 1990 U.S. Census data.

Table 3-2 Borrower Distribution of Consumer Loans made during 2003 and YTD as of June 30, 2004 in Hillsdale County AA as compared to 2000 U.S. Census Data								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	18.38%	30.00%	15.54%	45.00%	21.14%	20.00%	44.94%	5.00%

Source: Random loan sample of 2003 and YTD as of June 30, 2004 originations; 2000 U.S. Census data.

HCNB's distribution of consumer loans to borrowers of different income levels in the Jackson County AA is excellent. The bank's percentage of loans made to low- and moderate-income borrowers exceeded the percentage of low- and moderate-income households in the AA during the evaluation period. Refer to Tables 3-3 and 3-4 below.

Table 3-3 Borrower Distribution of Consumer Loans made during 2002 in Jackson County AA as compared to 1990 U.S. Census Data								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.87%	30.00%	16.60%	20.00%	19.44%	15.00%	39.09%	35.00%

Source: Random loan sample of 2002 originations; 1990 U.S. Census data.

Table 3-4 Borrower Distribution of Consumer Loans made during 2003 and YTD as of June 30, 2004 in Jackson County AA as compared to 2000 U.S. Census Data				
Borrower Income Level	Low	Moderate	Middle	Upper

	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	23.70%	45.00%	16.59%	20.00%	20.68%	15.00%	39.03%	20.00%

Source: Random loan sample of 2003 and YTD as of June 30, 2004 originations; 2000 U.S. Census data.

Business Lending

HCNB has demonstrated an excellent record of extending credit to businesses of different sizes. This conclusion is based on a business loan sample of 60 loans originated during 2002, 2003 and YTD June 30, 2004 and represented about \$5.8 million. HCNB performance of lending to businesses with total revenue of \$1 million or less was excellent for Hillsdale County AA and good for the Jackson County AA. Our loan sample disclosed 100 percent of the business loans granted in the Hillsdale AA were to businesses with revenues of \$1 million or less. This reflects excellent penetration compared to the percentage of businesses in the AA with revenues of \$1 million or less, which was reported at 92.3 percent. Our loan sample disclosed 85.0 percent of the number of loans and 90.9 percent of the dollar amount of loans were to businesses with revenues of \$1 million or less in the Jackson County AA. This reflects good penetration compared to the percentage of businesses in the AA with revenues of \$1 million or less, which was 89.5 percent. Refer to Tables 4-1 and 4-2 below. The table below for Hillsdale County AA excludes the portion of Lenawee and Calhoun Counties.

Table 4-1 Borrower Distribution of Loans to Businesses in Hillsdale County AA as compared to 2003 Business Demographic Data		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	92.30%	7.70%
% of Bank Loans in AA by #	100.00%	0.00%
% of Bank Loans in AA by \$	100.00%	0.00%

Source: Random loan sample of 2003 and YTD as of June 30, 2004 originations; 2003 Business Demographic Data.

* 25.22% of Hillsdale County AA businesses did not report revenue data.

Table 4-2 Borrower Distribution of Loans to Businesses in Jackson County AA as compared to 2003 Business Demographic Data		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	89.53%	10.47%
% of Bank Loans in AA by #	85.00%	15.00%
% of Bank Loans in AA by \$	90.91%	9.09%

Source: Random loan sample of 2003 and YTD as of June 30, 2004 originations; 2003 Business Demographic Data.

* 26.95% of Jackson County AA businesses did not report revenue data.

To better service the business community HCNB participated in the Capital Access Program (CAP), which was offered by the State of Michigan to promote economic business development and growth. This program provided loans to businesses that may not otherwise meet conventional underwriting standards. The State of Michigan decided to end this program in

2002. The bank granted 18 loans under this program since the previous CRA evaluation. There are currently nine loans HCNB is servicing with a total loan balance of \$455,815.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the Hillsdale and Jackson County AAs. An in-depth geographic distribution analysis for the Hillsdale County AA was not performed as none of the census tracts were low- or moderate-income as of the 2000 U.S. Census. However, we observed that the bank originated loans throughout the Hillsdale County AA during the evaluation period. Two census tracts in Lenawee County did change from moderate income to middle income from 1990 to the 2000 census. Based on general observations, the Lenawee and Calhoun portion of the Hillsdale AA have reasonable dispersion given the bank’s presence in these areas and its lending activity.

The geographic distribution analysis for the Jackson County AA was limited to the 2003-YTD 2004 period. A meaningful analysis of 2002 data could not be done as the bank was in the process of expanding into this market area.

HCNB’s overall geographic distribution of loans reflects a reasonable dispersion of loans throughout the Jackson County AA for 2003 and YTD as of June 30, 2004. This is based on loan samples comprised of 276 home loans, 20 consumer loans, and 20 business loans.

The percentages of home and consumer loans made in low- and moderate-income census tracts are below the percentage of owner-occupied housing in low- and moderate-income census tracts. Refer to Table 5-1 and 5-2 below. This is mitigated by the bank’s increased expansion into the Jackson market area during the evaluation period. Management continues to evaluate how best to service and meet the needs of individuals and businesses in this AA, and has made a commitment to service this AA by opening a branch office in a low-income tract and another in a moderate-income tract during the evaluation period.

Table 5-1 Geographic Distribution of Home Loans in Jackson County AA during 2003 and YTD as of June 30, 2004 as compared to 2000 U.S. Census Data

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 Loans	3.20	2.74	17.28	8.22	67.98	67.12	11.54	21.92

Source: 100% of Jackson County AA loans from the 2003 and YTD as of June 30, 2004 HMDA-LARs; 2000 U.S. Census data.

Table 5-2 - Geographic Distribution of Consumer Loans in Jackson County AA during 2003 and YTD as of June 30, 2004 as compared to 2000 U.S. Census Data

Census Tract Income Level	Low	Moderate	Middle	Upper
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	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	3.12	0.00	17.38	5.00	67.66	85.00	11.84	10.00

Source: Random loan sample of 2003 and YTD as of June 30, 2004 consumer loan originations; 2000 U.S. Census data.

HCNB's dispersion of business loans in the Jackson County AA was reasonable during the 2003 and YTD 2004 period given the lending opportunities and based upon general observation of lending activities. While the dispersion of business loans to low-income tracts reflects an excellent performance, the dispersion of business loans to moderate-income tracts compares unfavorably with the percentage of businesses in moderate-income census tracts. Management continues to evaluate how to better meet the needs of businesses in the Jackson County AA. Refer to Table 5-3 below.

Table 5-3 - Geographic Distribution of Loans to Businesses in Jackson County AA as compared to 2003 Demographic Data*								
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 Loans	8.18	15.00	17.29	10.00	65.79	65.00	8.65	10.00

Source: Random sample of business loans originated during 2003 and YTD as of June 30, 2004; 2003 Geodemographic Data.

*0.09% of business loans were made in the census tract that had no income designation.

Responses to Complaints

HCNB has not received any complaints that affect the bank's Community Reinvestment Act rating.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.