



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

December 12, 2007

### **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.

## **INSTITUTION'S CRA RATING: Satisfactory.**

### **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.

## **SCOPE OF EXAMINATION**

We performed a full-scope review of HNB's activities for the evaluation period. The evaluation period for this review is July 2002 through November 2007. We based our evaluation on samples of residential mortgages and business loans originated during the evaluation period. Refer to the comments in the remainder of this evaluation for details on the lending analysis.

## **DESCRIPTION OF INSTITUTION**

Heartland National Bank is headquartered in Sebring, Florida. The bank began operation on September 7, 1999, and is a wholly-owned subsidiary of Heartland Bancshares, Inc., a one-bank holding company. HNB has four offices located in Highlands County. There are ATMs at each respective location. In November 2007, HNB relocated their Avon Park branch from its former location on U.S. Highway 27 North, and reopened it in downtown Avon Park. They also opened a new location in northern Sebring in April 2005.

As of September 30, 2007, HNB had total assets of \$247 million. Net loans represent 74% of total bank assets. The bank's primary lending products are business loans and residential real estate mortgages. The table below details loan originations from 2005, 2006 and through November 2007.

**Heartland National Bank Loan Originations – 2005 to 2007**

Year	Business Loans		Residential Mtgs		Consumer Loans		Total
2005	360	\$82,497	353	\$54,162	609	\$23,214	1,322 \$159,873
2006	308	\$78,180	275	\$47,478	558	\$19,625	1,141 \$145,283
Jan-Nov 2007	204	\$40,652	183	\$28,286	367	\$13,252	754 \$82,190

There are currently no financial, legal, or other impediments to the bank's ability to meet community credit needs. The bank received a "Satisfactory" rating on its performance evaluation dated June 3, 2002.

## DESCRIPTION OF ASSESSMENT AREA

HNB's assessment area (AA) consists of 17 census tracts (CTs) that comprise 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 87,366 based on the 2000 U.S. Census. There are 26,016 families in the assessment area. The chart below details the income categories for the census tracts as well as the distribution of families in the AA based on their income level. Census tract categories are also based on the 2000 Census. Family income is based on the HUD's<sup>1</sup> 2007 estimate of median family income of \$42,400 for nonmetropolitan areas in the State of Florida.

	Census Tracts By #	Census Tracts By %	Families In AA
<b>Low-Income</b>	NA	0%	18.19%
<b>Moderate-Income</b>	4	24%	20.29%
<b>Middle-Income</b>	13	76%	24.92%
<b>Upper-Income</b>	NA	0%	36.60%
<b>Totals</b>	17	100.0%	100.00%

As noted above, there are no low-income or upper-income census tracts 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 at 32%. Thirty-three percent (33%) of the population is over 65 years of age. Less than 14% of the population lives below the poverty level and 54% receive social security income. Seventy-six (76%) of all housing units are occupied, while 61% 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 ([www.sebringflchamber.com](http://www.sebringflchamber.com)), the primary source of economic activity is derived from citrus, cattle and dairy operations. Highlands County is the third largest county in Florida for growing citrus. The citrus industry accounts for \$200 million in annual economic benefits to the area and employs between 2,500 - 3,000 people on a year-round basis. This number 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.

---

<sup>1</sup> Department of Housing and Urban Development

Banking competition in the county consists of 9 financial institutions having 33 banking offices in Highlands County. During our examination, we contacted two local housing organizations to identify credit needs within the community. Based on this information, we determined primary needs include affordable housing and consumer loans with flexible programs. The demand for affordable housing remains strong. Also, there continues to be a need for banks to provide mortgage financing and to participate in credit counseling classes and other financial literacy efforts.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

***The bank's average loan-to-deposit (LTD) ratio is reasonable and consistent with peer averages.*** The bank's quarterly average LTD ratio from June 2002 through November 2007 is 77%. The average LTD ratio for non-metropolitan banks nationwide with similar asset size is 78%.

- **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 during the evaluation period. This included loans to purchase and refinance traditional single family homes. We also sampled 20 business loans made within this same time frame. Our results for both loan types are summarized below.

<b>By Loan Type</b>	<b>Loans Sampled</b>		<b>Loans in the Assessment Area</b>	
	Total Number	By Dollar Volume	By Number	By Dollar Volume
Residential Loans	40	\$5,743,022	92.50%	95.93%
Business Loans	20	\$3,180,036	100.00%	100.00%

- **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-metropolitan statewide median family income of \$42,400 for the year 2007. The distribution of families in the assessment area is based on the 2000 Census data, and the analysis is depicted in the following table.

Income Category	Geographic Distribution by # and \$ Volume of Loans		
	Residential Loan Analysis		Families in AA
	By #	By \$	
<i>Low-Income</i>	0.0%	0.0%	18.19%
<i>Moderate-Income</i>	10.0%	6.6%	20.29%
<i>Middle-Income</i>	22.5%	18.3%	24.92%
<i>Upper-Income</i>	57.5%	67.0%	36.60%
<i>Data not available</i>	<u>10.0%</u>	<u>8.1%</u>	<u>0.00%</u>
<b>Total</b>	100.00%	100.00%	100.00%

The analysis indicates some disparity with lending to low-income families in the assessment area. This is due to several factors. First, the loans sampled for this analysis were conventional mortgages for the purchase or refinance of single-family homes. The loan sample did not include mobile home loans, which comprise a significant housing type in Highlands County, at 28% of total housing units. Heartland NB does originate mobile home loans. Also, as discussed in the Performance Context section of this evaluation, the assessment area contains a significant number of retirees. These individuals may be considered low-income since they are no longer wage earners. But they typically do not have a great need for mortgage-related products. Our analysis also indicates the bank has a reasonable record of making residential loans to moderate-income individuals.

***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 during the evaluation period. We determined that the bank makes loans to businesses of varying sizes, but primarily to small businesses. The analysis showed 80% of the total number of business loans sampled, and 46% based on respective loan amounts, were to small businesses (those with total revenues less than \$1 million). In comparison, economic data supports that 65% of all businesses operating within the assessment area are considered small businesses (revenue data was not available for 33% of Highlands County businesses).

HNB also makes a large portion of their business loans in smaller dollar amounts. Our sample included loans with original amounts ranging from \$10,000 to \$960,000. This is a favorable indicator that HNB makes loan amounts that are within reach of smaller businesses. A detailed breakdown by loan amount is presented below.

Loan Amount	By #	By \$
< \$100,000	40.00%	11.12%
\$100,001 - \$250,000	45.00%	39.78%
\$250,001 - \$500,000	10.00%	18.91%
\$500,001 - \$1,000,000	5.00%	30.19%
> \$1,000,000	<u>0.00%</u>	<u>0.00%</u>
<b>Total</b>	100.00%	100.00%

- **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.*** The distribution of HNB's loans reflects lending in most tracts. 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 census tract income level. The results of our analysis are summarized in the following table.

Geographic Distribution by # and \$ Volume of Loans			
Tract Category	Residential Loan Analysis		% of OO Housing*
	By #	By \$	
<i>Low-Income</i>	0.0%	0.0%	0.0%
<i>Moderate-Income</i>	2.5%	0.5%	12.2%
<i>Middle-Income</i>	90.0%	95.4%	87.8%
<i>Upper-Income</i>	0.0%	0.0%	0.0%
<i>Data not available</i>	7.5%	4.1%	0.0%
<b>Total</b>	100.00%	100.00%	100.00%

\*Owner Occupied

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 the evaluation period. 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			
Tract Category	Business Loan Analysis		% of Businesses
	By #	By \$	
<i>Low-Income</i>	0.00%	0.00%	0.00%
<i>Moderate Income</i>	30.00%	23.70%	19.29%
<i>Middle-Income</i>	70.00%	76.30%	80.71%
<i>Upper-Income</i>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
<b>Total</b>	100.00%	100.00%	100.00%

- **Response to Complaints - Not Applicable**

We reviewed records of consumer complaints 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**

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