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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

August 15, 1996

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heartland Bank, National Association  
Charter Number 22956

120 South Washington  
Jewell, Kansas 66949

Office of the Comptroller of the Currency  
Salina Duty Station  
1516 E. Iron  
Salina, Kansas 67402-0616

NOTE: 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.

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Heartland Bank, National Association prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 15, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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

The bank has a good record of lending to businesses of different sizes and individuals of varying income levels. The majority of the bank's loans are within its assessment area. Lending levels are reasonable in relation to other institutions in the area.

The following table indicates the performance level of Heartland Bank, National Association with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	HEARTLAND BANK, N.A. PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	An analysis of the geographic distribution of loans would not be meaningful.		
Response to Complaints	The bank has not received any complaints from its assessment area.		

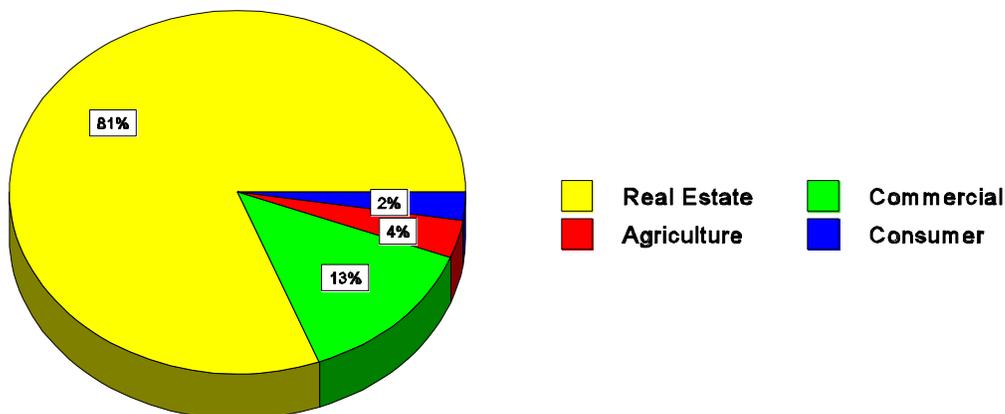
## DESCRIPTION OF INSTITUTION

Heartland Bank, National Association is an \$11 million bank located in Jewell, Kansas. Berlau Bancshares, Inc., a one-bank holding company located in Prairie Village, Kansas, owns 99% of the institution's outstanding stock. Although the main office is located in Jewell, Kansas, a large portion of loans are originated from a loan production office (LPO) in Leawood, Kansas. The Board chose to establish this LPO to originate home loans which are presold in the secondary residential real estate market. The bank also has a loan officer in Phoenix, Arizona to originate home loans for the LPO. In addition, customers can apply for home loans via the bank's internet address or through the use of toll free telephone calls.

Net loans represent approximately 77% of the bank's total assets. As of June 30, 1996, the portfolio totaled \$8.2 million and had the following composition:

## Loan Portfolio Composition

As of June 30, 1996



Real estate comprises a large portion of the portfolio due to the temporary booking of home loans originated at the LPO. These loans are generally on the bank's books for approximately 15 days prior to sale to the secondary market. As of June 30, 1996, the portfolio contained approximately \$4.4 million of presold home loans. This represented 54% of the entire loan portfolio.

There are no legal, financial or other factors which impede the bank's ability to help meet the credit needs of its assessment area. However, the bank's small lending limit does impact its ability to attract large agricultural borrowers. As of June 30, 1996, the bank's lending limit was \$101M.

## DESCRIPTION OF HEARTLAND BANK'S ASSESSMENT AREA

The bank's assessment area complies with the guidelines of the CRA regulation. The Board has designated its assessment area as Block Number Area (BNA) 9762. This is one of two BNA's in Jewell County. The county is not located in a Metropolitan Statistical Area. BNA 9762 is considered middle income. Throughout the county, there is an even distribution of low-, moderate-, middle-, and upper-income families. About 25% of the families are in each of these income categories. This income level is based on a comparison to the 1996 Kansas statewide non-metropolitan median family income of \$34,300.

The population of the assessment area is approximately 2,600. The city of Jewell has a population of about 500. The assessment area contains about 61% of the population of the entire county. Nearly 25% of the people in the assessment area are over 65 years old and 41% of the households have income from social security.

We performed one community contact with a local business owner during our examination. We also had access to two community contacts performed in 1995 by another regulatory agency. Each of these individuals noted that agricultural lending was the primary credit need of the area. None of the contacts were aware of any unmet credit needs. Although Heartland Bank's lending levels do not reflect a large volume of agricultural lending, the bank is willing to make these loans. Other area financial institutions satisfactorily meet the credit needs of the large farming operations. Heartland Bank is primarily focusing on the consumer and residential real estate credit needs of the community. We also noted that the bank has loans to a majority of the small businesses in Jewell.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

### Loan to Deposit Analysis

The bank's loan-to-deposit ratio meets the standards of satisfactory performance. For the past five quarters since the bank's last CRA examination, the ratio averaged 83%. The ratio has increased significantly from 58% as of June 30, 1995, to 96% as of June 30, 1996. This increase is due to the high volume of loans originated at the LPO which is out of the bank's assessment area. The average loan-to-deposit ratio for the other three banks in Jewell County during this time period was 48%. Excluding the out-of-territory loans, the bank's loan-to-deposit ratio is comparable to other banks in the area. Heartland Bank's loan-to-deposit ratio, excluding the presold home loans from the LPO as of June 30, 1996, was 44%. Individual ratios for the other three banks in the county were 35%, 46%, and 69% for this same period.

### Comparison of Credit Extended Inside and Outside of the Assessment Area

The bank makes the majority of its loans to borrowers within the assessment area. We judgmentally sampled 15 commercial and agricultural loan originations made during 1996. These loans totaled \$366M and represented 26% of the bank's year-to-date commercial and agricultural originations. Based on this sample, we estimated that approximately 70% of the dollar volume and 87% of the number of loan originations were to borrowers located in the assessment area.

Consumer lending patterns reflect a similar proportion of loans within the assessment area. We reviewed 21 consumer loans totaling \$65M. We found that 73% of the dollar volume and 86% of the number of these loans were made to borrowers in the assessment area. Our judgmental sample of consumer loans represented 26% of the dollar volume and 32% of the number of consumer originations made in 1996. For this analysis, we excluded the volume of presold home loans originated at the LPO.

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

The bank has a good record of lending to borrowers of different sizes and income levels. A substantial portion of the bank's commercial and agricultural borrowers meet the definition of small farms and businesses. This is due, in part, to the size of the bank and its relatively small lending limit. The bank's record of lending to individuals also demonstrates a good distribution of loans to borrowers of different income levels.

We reviewed gross revenues for 18 commercial and agricultural borrowers. The bank has a good distribution of loans to businesses and farms of different sizes. A majority of the bank's loans are to commercial and agricultural borrowers with gross revenues of less than \$100M. This compares favorably to the fact that the average farm in Jewell County has gross farm income of \$161M. We obtained information regarding average farm income from The 1995 Farm Records Analysis Summary which was compiled by Kansas State University. The following table shows the income distribution of the commercial and agricultural borrowers that we sampled:

Gross Revenues	# of Borrowers
\$0 - \$50,000	9
\$50,001 - \$100,000	4
\$100,001 - \$200,000	2
\$200,001 - \$500,000	1
over \$1 million	2

From our sample of 23 consumer loans, we found 17 borrowers who had annual incomes less than the statewide average of \$34,300. The following chart depicts a breakdown of the annual income levels of the consumer loan customers in our sample:

Annual Income Level	Number of Borrowers
Low (\$0 - \$17,150)	9
Moderate (\$17,151 - \$27,440)	5
Middle (\$27,441 - \$41,159)	3
Upper (\$41,160 and over)	6

#### Distribution of Credit Within the Assessment Area

A geographic analysis of the assessment area would not be meaningful. The assessment area does not contain any low- or moderate-income BNA's.

#### Compliance with Antidiscrimination Laws and Regulations

We reviewed a sample of consumer approvals and denials and found no substantive violations of fair lending laws and regulations. Based upon this review, we found no evidence of disparate treatment of applicants.