

PUBLIC DISCLOSURE

January 11, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Hartland Bank, National Association
Charter No. 17513
10711 Burnet Road
Austin, Texas 78766-1994**

**Office of the Comptroller of the Currency
Austin Field Office
8310 Capital of Texas Highway, North, Suite 250
Austin, Texas 78731-1080**

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 the 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 CRA performance of **Hartland Bank, N. A. (HBNA), Austin, Texas**, prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of January 11, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

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

The conclusion is based on the following:

- ▶ The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the assessment areas' credit needs.
- ▶ A substantial majority of loans are made in the assessment areas.
- ▶ The distribution of borrowers reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes, given the demographics of the assessment areas.
- ▶ The geographic distribution of loans reflects a reasonable dispersion throughout the assessment areas.
- ▶ The bank has taken appropriate action in response to a consumer complaint.

The following table indicates the performance level of **Hartland Bank, N. A. of Austin, Texas** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Hartland 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	✓		
Lending in Assessment Area	✓		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		✓	
Geographic Distribution of Loans		✓	
Response to Complaints		✓	

DESCRIPTION OF INSTITUTION

HBNA is headquartered in Austin, Texas, approximately fifteen miles north of the central business district, and approximately 5 miles west of U.S. Interstate Highway 35. The bank began operations as HBNA in June 1990 after a the merger of a previously insolvent bank which was acquired by the current ownership, and Georgetown National Bank in Georgetown, Texas. HBNA is a closely-held and locally-owned independent bank with total assets of \$290 million as of September 30, 1998. HBNA has eight banking locations - a main office and a branch in Austin, and one branch in each of the following cities: Bee Cave, College Station, Georgetown, Round Rock, San Marcos, and Temple, Texas.

All locations except for the College Station branch offer drive-thru banking. Automated teller machines (ATMs) are available at all branch locations and customers can access their accounts through all major ATM networks. HBNA offers convenient banking hours and has a variety of loan and deposit products to meet the needs in the assessment areas.

HBNA offers a variety of loan products as noted in the table below. The loan portfolio composition as of September 30, 1998 is as follows:

Loan Type	\$ Volume (000's)	% of Portfolio
1-4 Family Residential	\$38,234	22.0%
Commercial	17,988	10.3%
Installment	6,353	3.6%
Commercial Real Estate	107,832	61.9%
Agriculture & Farmland	3,763	2.2%
TOTAL	\$174,170	100.0%

Source: September 30, 1998 Call Report

The bank's primary business focus is small business loans. The primary competition in the Austin area for these loans comes from the regional or multinational banking institutions that have a significant presence in the same trade area. Competition in the Killeen/Temple and Bryan/College Station metropolitan statistical areas (MSAs) comes mainly from established local institutions. There are no internal constraints that inhibit HBNA from meeting assessment area credit needs.

DESCRIPTION OF THE ASSESSMENT AREAS

HBNA has three assessment areas (AAs) encompassing five counties and 291 census tracts (CTs). The counties are Hays, Travis, and Williamson Counties from the Austin/San Marcos MSA, Bell County from the Killeen/Temple MSA, and Brazos County from the Bryan/College Station MSA. On a combined basis, the three MSAs total 291 Cts. The following table shows the income distribution of CTs and families that comprise the bank's AAs, except for 29 CTs which are not categorized.

Income Distribution of CTs and Families - All Three MSAs															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
CT		Families		CT		Families		CT		Families		CT		Families	
20	7%	12,650	5%	68	23%	55,866	21%	98	34%	109,346	41%	76	26%	87,069	33%

Source: 1990 U.S. Census

Austin/San Marcos MSA

The bank has included three of the five counties that comprise the Austin/San Marcos MSA which is located in central Texas. The counties that comprise this AA are Hays, Travis, and Williamson Counties. The median family income (MFI) for the MSA is \$35,481, as calculated by the 1990 U.S. Census. It is used to determine the income level of individual CTs. The 1998 Department of Housing and Urban Development (HUD) estimated the MFI for the Austin/San Marcos MSA is \$50,800. The HUD-estimated MFI is used to determine the income level of individual applicants and is updated annually.

HBNA's primary trade area includes the state capital, Austin, Texas, and communities along IH 35. Included are the cities of Florence, Georgetown, Granger, Hutto, Pflugerville, Round Rock, and San Marcos. Major employers in the area include:

- ▶ high-technology industry - manufacturing hardware, software, and computer-related services;
- ▶ governments - city, county, state, and federal;
- ▶ public school systems, led by the University of Texas system;
- ▶ residential and commercial construction; and
- ▶ retail goods and services.

The overall economy of the AA is active primarily because of growth in the technology area. For December 1998, the unemployment rates for the MSA, state, and nation were 2.3%, 4.4%, and 4.0%, respectively.

The following table shows the income distribution of 224 CTs and families that comprise the three counties of the Austin/San Marcos MSA in the bank's assessment area except for 27 CTs which are not categorized.

Income Distribution of CTs and Families - Austin/San Marcos MSA															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
CT		Families		CT		Families		CT		Families		CT		Families	
17	9%	37,565	20%	50	25%	32,065	17%	74	38%	42,108	22%	56	28%	76,515	41%

Source: 1990 U.S. Census

Killeen/Temple MSA

Bell County is part of the two-county Killeen/Temple MSA. It is adjacent to the Austin/San Marcos MSA and just north of Austin, Texas. The MFI for the MSA is \$26,429, as calculated by the 1990 U.S. Census. It is used to determine the income level of individual CTs. The 1998 HUD estimated the MFI for the Killeen/Temple MSA is \$36,600. The HUD-estimated MFI is used to determine the income level of individual applicants and is updated annually.

Major employers in the area include the U.S. Military by virtue of the neighboring U. S. Army base of Fort Hood. City and county governments and the public school systems are the next largest employers.

The economy of the AA is stable primarily because it is diversified. Manufacturing, trade, and services are the major industries of this AA. For December 1998, the unemployment rates for the MSA, state, and nation are 3.4%, 4.4%, 4.0%, respectively.

The following table shows the income distribution of 43 CTs and families in the Bell County area of the Killeen/Temple MSA.

Income Distribution of CTs and Families - Killeen/Temple MSA															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
CT		Families		CT		Families		CT		Families		CT		Families	
1	2%	9,450	18%	13	30%	9,761	19%	13	30%	11,167	22%	16	37%	20,865	41%

Source: 1990 U.S. Census

Bryan/College Station MSA

Brazos County comprises all of the Bryan/College Station MSA. It is located northeast of Austin, about 120 miles away. The MFI for the MSA is \$31,056, as calculated by the 1990 U.S. Census. It is used to determine the income level of individual CTs. The 1998 HUD estimated the MFI for the Bryan/College Station MSA is \$39,600. The HUD-estimated MFI is used to determine the income level of individual applicants and is updated annually.

HBNA’s primary trade area is the city of College Station and the surrounding communities. Major employers in the area include the public school systems, primarily the Texas A&M University system, city and county governments, and service sectors.

The economy of the MSA is active, as indicated by the low unemployment figure. The area of

Bryan/College Station has become a medical, agribusiness, and research center. For December 1998, the MSA's unemployment rate is 1.6%, the state's rate is 4.4%, and the national rate is 4.0%.

The following table shows the income distribution of 24 CTs and families that comprise the Bryan/College Station MSA, except for 2 CTs which are not categorized.

Income Distribution of CTs and Families - Bryan/College Station MSA															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
CT		Families		CT		Families		CT		Families		CT		Families	
2	9%	6,207	24%	6	27%	3,897	15%	10	46%	5,007	20%	4	18%	10,324	41%

Source: 1990 U.S. Census

Community Contacts

Information about community needs was obtained from an economic development organization that is based in Austin. Based on information from this contact, the primary credit needs in the community are small business loans in inner-city areas and affordable housing loans for home ownership and rental property.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

A sample of 38 consumer loans made in 1998 and a sample of 47 small business loans made since the prior evaluation in September 1995, were used to determine the bank's lending performance in the AAs, lending to borrowers of different incomes and businesses of different sizes, and geographic distribution of loans. Residential loans made since the previous CRA evaluation and reported in the Home Mortgage Disclosure Act - Loan Application Registers for 1995 - 1998 were also used to review performance for these three factors.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The ratio has been steadily rising. HBNA's LTD ratio has averaged the highest among similarly situated banks with a 67% ratio for the 13 quarters ending September 30, 1998. The ratio has ranged from a recent peak of 72% on June 30, 1998, to a low of 58% on September 30, 1995, the beginning of this 13-quarter period. The following table shows total assets (as of September 30, 1998) and the average LTD ratio from September 30, 1995 to September 30, 1998 of other area banks.

Institution	City	County	Total Assets (Millions)	Avg. LTD Ratio
Hartland Bank, N. A.	Austin	Travis	\$290	67%
First State Bank	Austin	Travis	\$580	53%
City National Bank	Taylor	Williamson	\$138	37%
Union State Bank	Florence	Williamson	\$131	58%
Walburg State Bank	Georgetown	Williamson	\$62	57%
Texas Heritage Bank	Hutto	Williamson	\$75	63%

Lending in Assessment Area

A substantial majority of loans originated in the AAs, based on a review of a sample of consumer and commercial loans used in this evaluation and of all residential loans made since the prior evaluation. Of the sample of consumer loans, 34 or 89% of the number and 90% of the dollars were made in the AAs. In residential loans, 91% of the number of loans and 89% of total loan dollars were made in the AAs. And of business loans, 46 or 98% of the number and 11,033,296 or 99% of the loan dollars were made in the AAs. In the three areas, almost all loans were made in the Austin/San Marcos MSA.

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

Consumer and Residential Real Estate Loans

The distribution of consumer loan customers reflects an excellent penetration among individuals of different income levels (including low- and moderate-income), given the demographics of the AAs. The distribution of residential loans shows a reasonable penetration. Residential lending volumes reflect the local residential real estate market which is highly competitive due to national mortgage companies and other banks with larger market presences. The following table shows the distribution by borrower income levels of the number and dollar volume of residential real estate loans originated between October 1, 1995, to November 14, 1998, and of the sample of consumer loans that originated in 1998.

Distribution of Consumer and Residential Loans in All Assessment Areas by Borrower Income								
<i>Family Characteristics All Assessment Areas</i>	Low 5%		Moderate 21%		Middle 41%		Upper 33%	
	#	%	#	%	#	%	#	%
Consumer #'s	7	18%	11	29%	9	24%	11	29%
Consumer \$'s	20	7%	94	32%	100	33%	83	28%
Residential #'s,95-98*	10	5%	22	11%	26	13%	145	71%
Residential #'s,95-98*	216	1%	920	6%	1,230	7%	14142	86%

Sources: 1990 U.S. Census data, HMDA-LAR reports for 1995 (4th quarter), 1996, 1997, and 1998 (year-to-date 11/14/98)

Small Business Loans

HBNA has a reasonable record of making loans to businesses of different sizes, including small businesses. Demographic statistics based on the 1990 U.S. Census show that 91% of businesses in the combined AAs have revenues of \$1,000,000 or less (small businesses). Loans to small businesses totaled 37, or 79% of the number of loans and accounted for 86% total loan dollars. It is noted that all loans in the sample except for one out-of-area loan were in the Austin/San Marcos MSA. Demographic data for the 1990 U.S. Census for Hays, Travis, and Williamson Counties shows that 90% of business are small businesses. HBNA has no significant loan activity to farms. The following table shows the distribution of the sample loans to businesses by income.

Distribution of Business Loans in Assessment Area by Borrower Income								
	0 - 250,000		250,000 - 500,000		500,000 - 1,000,000		1,000,000+	
	#	%	#	%	#	%	#	%
Number of Loans	16	34%	13	28%	8	17%	10	21%
Loan Dollars (000s)	1,552	14%	3,630	32%	4,385	39%	1,616	14%

Source: 1990 U. S. Census and Commercial Loan Sample

Geographic Distribution of Loans

Consumer and Residential Real Estate Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AAs, based on a review of the consumer loan sample and a review of residential loans made since the prior evaluation. The following table shows the geographic distribution of consumer and residential real estate loans made in the AAs by census tract.

Distribution of Consumer and Residential Loans in Assessment Area by Census Tract								
Tract Characteristics All Assessment Areas	Low 7%		Moderate 23%		Middle 34%		Upper 26%	
	#	%	#	%	#	%	#	%
\$'s shown in 000's								
Consumer Loans #'s	0	0%	4	16%	16	64%	5	20%
Consumer Loans \$'s	0	0%	17	11%	94	59%	49	30%
Residential #'s, 95-98	18	7%	36	13%	112	42%	101	38%
Residential \$'s, 95-98	4,124	13%	3,576	11%	12,230	37%	12,671	39%

Source: 1990 U.S. Census data, HMDA-LAR's for 1995 (4th Quarter), 1996, 1997, and 1998 (year-to-date 11/14/98), and bank files

Business Loans

A review of business loans reflects a reasonable penetration throughout the AAs. The following table shows the distribution of business loans. Geocoding was done for 37 of the 46 business loans sampled.

Distribution of Small Business Loans in Assessment Area by Census Tract								
	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Tract Characteristics	20	7%	68	23%	98	34%	76	26%
Number of Loans	0	0%	11	31%	8	22%	17	47%
Dollar Volume	\$0	0%	\$1,411	19%	\$1,494	20%	\$4,677	61%

Source: 1990 U.S. Census data and bank data

Response to Complaints

HBNA received one complaint regarding its performance in meeting AA credit needs. The bank took appropriate action in response to the complaint about its performance.

ADDITIONAL INFORMATION

Discrimination or Other Illegal Credit Practices

A Fair Lending review was conducted in conjunction with the bank's CRA performance examination. Underwriting and loan terms were reviewed for a consumer loan sample that included 39 approved loans and 21 denied applications. No evidence of discrimination or apparent disparate treatment was noted during this review.

Investment and Services

HBNA has donated a portfolio of small business loans to an affiliate of the Austin Community Development Corporation. The book value of the loans in January 1999 is \$68,112, and the total of these loans that are performing is \$26,419. These loans originated between 1996 and 1998 under the East Austin Enterprise Fund (EAEF) for businesses in low- and moderate-income areas of east Austin. The total dollars originated is \$97,032. HBNA provided a total of \$100,000 in funding for the EAEF - an initial amount of \$50,000 and an additional \$50,000.

Services are commensurate with those offered in all AAs. One branch was opened in 1997 (Bee Cave Branch), and two branches were converted from loan production offices in 1998 (Temple and College Station). Regulatory approval has been received to close the branches that were opened in 1998 in 1999 due to unprofitable operations.