



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 12, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage National Bank of Granbury
Charter Number 18255**

**1807 Highway 377 East
Granbury, Texas 76048-8237**

**Comptroller of the Currency
1600 Lincoln Plaza
500 North Akard Street
Dallas, Texas 75201-3394**

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 **Heritage National Bank of Granbury** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 12, 1997 . 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 lending performance of Heritage National Bank of Granbury (HNB) reflects satisfactory responsiveness to the credit needs of the two communities served, Granbury and Benbrook, Texas. The loan-to-deposit ratio is reasonable and exceeds the ratios of area banks of similar size. The majority of the loans are within the bank's designated assessment areas, reasonably penetrate the different income levels and are reasonably distributed throughout the assessment areas.

The following table indicates the performance level of Heritage National Bank of Granbury with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	HERITAGE NATIONAL BANK OF GRANBURY 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		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

HNB is owned 100% by Heritage Financial Corporation (HFC), a one-bank holding company. The main bank is located in Granbury, Texas, with a branch approximately 30 miles northeast in Benbrook, Texas. Both offices are located on Texas Highway 377. Total assets of the bank as of September 30, 1997 are just over \$101 million. The bank offers a variety of loan products but focuses mainly on 1-4 family mortgages and consumer installment loan products. The loan portfolio is segregated as follows:

Real Estate:

Construction	11%	
1-4 family mortgages	37%	
Agriculture	2%	
Multifamily housing	1%	
Commercial	<u>12%</u>	
Sub-total		63%
Installment		22%
Municipal		8%
Commercial		<u>7%</u>
Total		100%

The bank's financial condition does not inhibit its ability to meet credit needs in its assessment areas. Additionally, the bank has no legal impediments that would inhibit its ability to meet community credit needs. Also, from community contacts, we did not identify any significant unmet credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The bank is comprised of the main banking facility in Granbury, Texas, with a branch facility located in Benbrook, Texas. Information relating to each location and the respective assessment area is detailed below.

Assessment area 1 - Hood County:

The Board has designated Hood County as the assessment area for the main banking facility in Granbury. Hood County is part of the Fort Worth-Arlington, Texas, Metropolitan Statistical Area (MSA), and consists of five whole and contiguous census tracts. This designation meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to 1990 census data, four of the census tracts in Hood County are middle-income geographies, while the fifth is a moderate-income geography. There are no low-income census tracts. The population of the county is 28,981 and the median family income is \$36,562. According to the same data, low-income families comprise 23% of the population, while moderate-income families comprise 18%, middle-income families comprise 20%, and upper-income families comprise the remaining 39%.

Granbury is comprised of a large population of retired individuals and serves as a bedroom community to Fort Worth. Therefore, deposits in the area are quite substantial and competition for limited loan demand is strong. The local economy is stable and strong. The economic base is primarily service and recreational oriented.

Assessment Area - City of Benbrook:

The Board has designated the City of Benbrook as the assessment area for the branch facility in Benbrook. Benbrook is located in southwest Tarrant County adjacent to Fort Worth and is also a part of the Fort Worth-Arlington, Texas, MSA. The city consists of seven whole and contiguous census tracts. This designation meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to 1990 census data, six of the census tracts in Benbrook are upper-income geographies, while the seventh is a middle-income geography. There are no low- or moderate-income census tracts. The population of Benbrook is 19,683 and the median family income is \$53,650. According to the same data, low-income families comprise 8% of the population, while moderate-income families comprise 10%, middle-income families comprise 19%, and upper-income families comprise the remaining 63%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

HNB's lending performance is satisfactory. The bank is involved in all types of lending, including Small Business Administration (SBA) and originating mortgage loans to be sold in the secondary markets. As of September 30, 1997, the bank had 10 SBA loans totaling \$543,681, and had originated \$13.4 million in mortgages that had been sold into secondary markets.

The bank makes loans throughout the assessment areas to individuals with differing income levels. Our review of fair lending regulations revealed no evidence of discriminatory practices, and no violations of the substantive provisions of antidiscrimination laws.

Assessment Area Concentration

A majority of HNB's loans are made within the Hood County and City of Benbrook assessment areas. Approximately 80% of mortgage loans approved in 1995 and 1996 were for properties within each assessment area. In addition, the bank's internal analysis indicates that 84% of loans originated at the Granbury facility are within the Hood County assessment area. Our sample of loans originated at the Benbrook branch indicates that 59% of these loans are within the City of Benbrook assessment area.

Loan-to-Deposit Ratio

HNB is a leader in the lending area which is in part reflected in the loan-to-deposit ratio. As of June 30, 1997, the bank's loan-to-deposit ratio is 57%. Also as of that date, the bank's 10 quarter average loan-to-deposit ratio is 53%. This is well above other banks located within the assessment areas which range from a high of 51% to a low of 33%. Including mortgages sold into the secondary markets, HNB's loan-to-deposit ratio approximates 71% as of September 30, 1997. Competition for loans is very strong within both of the assessment areas. Community contacts verified that HNB is perceived as a leader in lending in the communities served.

Geographic Distribution of Loans

HNB's loan distribution reflects a satisfactory penetration among borrowers of different income levels and throughout all census tracts. Approximately 9% of all of the 1995 and 1996 mortgage approvals within the assessment area were for properties in the moderate-income census tract. This is in line with average approvals made per census tract, which was 7% in 1995 and 13% in 1996.

HNB has no minimum loan amount and will routinely make loans for \$1,000 or less, typically to low- or moderate-income individuals. As of October 20, 1997, 7.19% of the number of loans originated year to date in 1997 were for \$1,000 or less.

Response to Substantiated Complaints

HNB has received no complaints concerning its performance in meeting assessment area credit needs.