



PUBLIC DISCLOSURE

March 28, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Bank of St. Tammany
Charter Number 703691

205 North Columbia Street
Covington, LA 70433

Office of the Comptroller of the Currency

3838 North Causeway Blvd.
Suite 2890
Metairie, LA 70002-8105

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: This institution is rated Satisfactory

- Heritage Bank of St. Tammany’s loan-to-deposit ratio is more than reasonable relative to the bank’s size, financial condition, and competition.
- The bank originates the majority of its loans inside its assessment area.
- Heritage Bank of St. Tammany exhibits a reasonable penetration of loans to borrowers of different incomes.
- The bank exhibits reasonable dispersion of loans within its assessment area.
- Heritage Bank of St. Tammany did not receive any Community Reinvestment Act complaints during the review period.

SCOPE OF EXAMINATION

We evaluated Heritage Bank of St. Tammany’s CRA performance utilizing the Interagency Small Bank CRA procedures, which focus on the analysis of the bank’s primary loan products. As shown in the table below, the bank’s loan portfolio is primarily comprised of residential real estate loans totaling 76 percent, followed by commercial loans at 13 percent. Total residential real estate lending, combining construction, 1-4 residential properties, and multifamily, comprises 87 percent of the bank’s portfolio and consequently the bank is primarily a real estate lender.

Heritage Bank of St. Tammany Loan Portfolio		
Loan Category	Dollars (000)	Percentage
1-4 Residential Properties	55,293	76.21
Non-Farm / Non-Residential	9,251	12.74
Construction	5,366	7.40
Multifamily	2,350	3.24
Consumer	297	0.41
Total	72,557	100%

Source: Call Report Data as of 12/31/2015

The bank’s primary business strategy is to originate residential mortgage loans within its assessment area. The bank is a Home Mortgage Disclosure Act (HMDA) reporter, therefore we utilized HMDA data to evaluate the bank’s lending patterns. We analyzed HMDA loans for the years 2014 and 2015. When more recent data is needed for comparative purposes, such data is used and the applicable date noted. We conducted our last CRA examination August 3, 2010, which covered a period from March 1, 2007 through December 31, 2009. The last CRA examination found that the bank satisfactorily met the credit needs of its community. Prior to this CRA evaluation, we conducted a stand-alone data integrity HMDA review.

We contacted a community agency familiar with the bank’s assessment area to obtain

feedback regarding the area's demographics, perceived credit needs, and the responsiveness of local banks of addressing those needs.

DESCRIPTION OF INSTITUTION

Heritage Bank of St. Tammany is a full service community bank headquartered in Covington, Louisiana with total assets of \$96 million. The bank operates with two branches, with the additional branch being located in Slidell, Louisiana. The bank's main branch is located in an upper-income census tract while the Slidell branch is located in a middle-income census tract. Both branches are located in St. Tammany Parish, which is in close proximity to the City of New Orleans, the largest city in the area. St. Tammany Parish is part of the New Orleans Metropolitan Statistical Area (MSA).

The bank has not closed any branches since the previous examination. Banking hours reasonably meet the community needs with lobby hours Monday through Friday and automated teller machines (ATM) at both branch locations. The bank also offers online banking. The bank offers various deposit products and accounts such as traditional checking and savings accounts, certificates of deposit accounts, and mobile deposit capture. Additionally, the bank offers a variety of loan products to serve the credit needs of its assessment areas, including conventional financing for purchase, refinance and construction loans. The institution also offers Federal Housing Administration (FHA), Department of Veterans Affairs (VA), and rural development loans. There are no significant differences between products offered at the bank's two locations. No financial or legal impediments prevent Heritage Bank of St. Tammany from meeting the credit needs of the community. The last CRA evaluation was conducted in August 2010 with the bank receiving an overall "satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA(S)

Heritage Bank of St. Tammany's assessment area meets regulatory guidelines by including whole geographies and not arbitrarily excluding low- and moderate-income areas. The bank's assessment area includes all of St. Tammany Parish, which is one of eight parishes comprising the New Orleans Metropolitan Statistical Area (MSA). The entire MSA is too large for the bank to reasonably serve and so the bank focuses its banking activity in St. Tammany parish, where both of the bank's branches are located. Major cities in the assessment area include Covington, Mandeville, and Slidell. The assessment area is made up of 42 census tracts including four moderate-income census tracts (9.52 percent of total tracts), 17 middle-income census tracts (40.48 percent) and 21 upper-income census tracts (50 percent). There are no low-income census tracts in the assessment area.

Further details regarding the bank's assessment area is discussed in the following table, and is based on 2010 census data.

ASSESSMENT AREA DEMOGRAPHIC AND ECONOMIC DATA - ST. TAMMANY PARISH	
Population	233,740
Number of Families	61,398
Number of Households	84,536
Geographies	
Number of Census Tracts	42
Low-Income Census Tract	0
Moderate-Income Census Tract	4
Middle-Income Census Tract	17
Upper-Income Census Tract	21
Housing	
Owner Occupied Units	67,962
Rental Occupied Units	16,574
Median Family Income (MFI)	
2010 MFI for AA	\$73,743
2010 HUD-Adjusted MFI	\$61,900
Economic Indicators	
Unemployment Rate in December 2015	4.2
2010 Median Housing Value	\$206,534
% of Households Below Poverty Level	9.86
% of Vacant Housing Units	9.66

Source: 2010 census data

The Federal Financial Institutions Examination Council’s (FFIEC) updated 2014 median family income for the assessment area was \$61,900. Low-income is defined as less than 50 percent of the median family income. Moderate income is defined as 50 percent to 80 percent of the median family income. Middle-income is defined as 80 percent to less than 119 percent of the median family income. Upper-income is defined as income of 120 percent and over the median family income. The following table depicts Income Categories:

Income Categories – St. Tammany Parish			
Low	Moderate	Middle	Upper
<\$30,950	\$30,951 – \$49,519	\$49,520 - \$74,279	>\$74,280

Source: FFIEC, 2015

Based on 2015 business demographic data, there were 31,626 non-farm businesses in the assessment area. Of these, 26,834 (85 percent) of the businesses had revenues of less than \$1 million, 723 (2 percent) had revenues greater than \$1 million and 4,069 (13 percent) did not report revenue information. Primary employers include the St. Tammany Parish School Board, St. Tammany Parish hospital, private hospitals, and Wal-Mart. The other major industries include retail and service.

Competition among financial institutions in the assessment area remains strong, with the bank competing with several large national and regional banks. According to the Federal Deposit Insurance Corporation’s June 30, 2015 deposit market share report, Heritage Bank of St. Tammany commands 1.35 percent of the market share and ranks 12th out of 27 banks in the assessment area. The top five banks account for 75.21 percent of the deposits in the assessment area.

As part of the examination, we discussed the credit needs of the assessment area with one community contact located in Covington. The primary credit need in the community was identified as affordable housing. It was explained that the area is relatively affluent and therefore reasonably priced housing is difficult to find. Housing levels have returned to pre-Katrina levels, but demand is still greater than available housing stock. According to this contact, local banks have been active in helping meet the credit needs of the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Heritage Bank of St. Tammany’s performance in meeting the credit needs of its assessment area is satisfactory. We based our conclusion on the bank’s reasonable loan-to-deposit ratio, lending within its assessment area, borrower distribution of loans within its assessment area, and geographic dispersion of loans.

Loan-to-Deposit Ratio

Heritage Bank of St. Tammany’s loan-to-deposit ratio (LTD) is more than reasonable given the credit needs of the assessment area and the bank’s size, financial condition, and location. We based this determination on quarterly LTD ratios from September 2010 to December 2015 that averaged 78.35 percent. During this evaluation period, the bank’s LTD ratio ranged from a low of 69.58 percent to a high of 97.47 percent.

Management considers the five banks shown in the following table to be its competitors as all are of comparable size, actively offer residential loan products, and may have at least one branch location within the same boundaries of the bank’s assessment area. The LTD ratio for these peer banks is 54.11 percent, which is significantly lower than Heritage Bank of St. Tammany’s average during the same period. The peer bank’s average LTD ratio for the same period ranged from a low of 28.70 percent to a high of 70.17 percent.

Institution	Assets – As of December 31, 2015 (in thousands)	Average LTD
Heritage Bank of St. Tammany	96,461	78.35%
Bank of Erath	98,339	70.17%
Citizens Bank and Trust Company	113,366	69.51%
American Bank and Trust Company	112,522	64.74%
Kaplan State Bank	91,337	37.44%
Bank of Gueydan	80,631	28.70%

Source: Call Reports

Lending in Assessment Area

Heritage Bank of St. Tammany originated a substantial majority of loans inside its assessment area during the review period. As shown in the following table, the bank

made 86 percent of loans by number and 85 percent by dollar amount in its assessment area.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	70	87.50	10	12.50	80	\$13,252	87.18	\$1,948	12.82	\$15,200
Improvement	8	88.89	1	11.11	9	\$1,232	81.91	\$272	18.09	\$1,504
Refinance	58	84.06	11	15.94	69	\$11,235	83.49	\$2,222	16.51	\$13,457
Totals	136	86.08	22	13.92	158	\$25,719	85.27	\$4,442	14.73	\$30,161

Source: 2014 and 2015 HMDA Data

Lending to Borrowers of Different Incomes

Lending to borrowers of different income levels for residential real estate loans in the bank’s assessment area reflects a reasonable penetration, given the bank’s performance contexts. The bank is located in an area that consists mostly of middle- and upper-income borrowers. Considering the bank’s location, lending to borrowers of different incomes is good. While it appears that the bank has poor penetration to low-income borrowers, it is important to note the average median house value is \$206,534 and the average income for low-income borrowers is less than \$31,000, making home ownership unaffordable. Moreover, with average rents equaling \$945 in the assessment area, it is difficult for low-income renters to save for the down payment required to purchase a residence. Finally, the percentage of overall loans made by peer banks to low-income borrowers is 5.18 percent, which is less than the averaged percentage of the number of loans made by the bank to low-income borrowers, at 5.47 percent. The bank has good penetration to moderate-income borrowers in comparison to the number of assessment area families.

Borrower Distribution of Residential Real Estate Loans in St. Tammany Parish								
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
Purchase	15.78	4.96	14.50	15.86	18.43	22.68	51.29	45.86
Improvement	15.78	6.15	14.50	13.23	18.43	17.85	51.29	56.92
Refinance	15.78	5.31	14.50	10.79	18.43	17.60	51.29	51.01

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans originated in the bank’s assessment area reflects reasonable dispersion in the assessment area. As previously discussed, the bank’s assessment area does not contain any low-income census tracts and only four

moderate-income census tracts. For the assessment area, only 4.62 percent of the owner-occupied housing are located in the moderate-income census tracts, with the remaining 95.38 percent of the owner-occupied housing being either in the middle- or upper-income census tracts. Even though such a low percentage severely limits the bank’s ability to offer residential loans in the moderate-income census tracts, the bank’s lending nonetheless approximates the percentage of assessment area owner-occupied housing in that census demographic.

Geographic Distribution of Residential Real Estate Loans in St. Tammany Parish								
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
Purchase	0.00	0.00	4.62	3.25	42.86	36.68	52.52	60.07
Improvement	0.00	0.00	4.62	2.46	42.86	36.62	52.52	60.92
Refinance	0.00	0.00	4.62	3.50	42.86	34.05	52.52	62.45

Source: Data reported under HMDA; U.S. Census data.

Responses to Complaints

Heritage Bank of St. Tammany did not receive any consumer complaints pertaining to its lending activities during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s or Federal Savings Association’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.