

PUBLIC DISCLOSURE

April 13, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heartland Bank, N.A.
Charter Number 22956**

**120 South Washington
Jewell, Kansas**

**Office of the Comptroller of the Currency
Kansas City North Field Office - Salina Office
Post Office Box 616
Salina, Kansas**

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 CRA performance of **Heartland Bank, N.A.** prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **April 13, 1998**. 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.

Heartland's loan-to-deposit ratio is reasonable given its competitive environment, and its low legal lending limit due to its small size. The bank makes a majority of its loans within its assessment area. Its distribution of borrowers reflects excellent penetration among low- or moderate-income individuals and reasonable penetration among businesses of different sizes.

DESCRIPTION OF INSTITUTION

Heartland Bank N.A. (Heartland) is a \$10 million bank located in Jewell, Kansas (KS). It is wholly owned by Berlau Bancshares, Inc., a one-bank holding company. Heartland has no branches or ATM facilities, but it has one loan production office (LPO) located in Leawood, KS. Per management, Heartland's primary lending focus is residential, consumer, and commercial lending. As of December 31, 1997, the bank's loan portfolio totaled \$7.8 million and consisted of 73% 1-4 family residential, 12% commercial production and real estate, 9% agricultural production and farmland, 3% consumer installment, and 4% other.

Heartland faces strong competition within its assessment area (AA). It is one of six community banks (i.e. peer banks) and one credit union serving its AA. Based on total assets as of December 31, 1997, Heartland is the smallest bank among its competitors. The bank's small size somewhat impairs its ability to lend to middle-size or large farms and commercial businesses due to its low legal lending limit. Heartland's maximum lending limit to any one borrower has ranged from \$83,000 to \$105,000 since its previous CRA examination. Middle-size or large farms and commercial businesses in the AA typically borrow in larger amounts. However, in isolated cases, the bank has been able to make small loans to a large farm equipment dealer in the AA.

Except for its small size, there are no other legal impediments or other factors, including the financial condition of the bank, which hinders its ability to fulfill its CRA obligation. At the August 15, 1996 examination, the OCC assigned the bank a rating of "Satisfactory Record of Meeting Community Credit Needs."

This evaluation of Heartland's CRA performance does not include its LPO's lending activities because LPOs are not considered branches for CRA regulatory purposes. The LPO originates most of the bank's 1-4 family residential loans. Thus, if 1-4 family residential loans made by the LPO were excluded as of December 31, 1997, Heartland's loan portfolio would total \$3.2 million, and it would consist of 33% 1-4 family residential, 30% commercial production and real estate, 22% agricultural production and farmland, 7% consumer installment, and 8% other.

DESCRIPTION OF ASSESSMENT AREA

Heartland's AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas. The bank's AA consists of block numbering area (BNA) 9762 which is in Jewell County, KS. Jewell County is composed of BNAs 9761 and 9762, and is located in north central KS. The population of BNA 9762 totals 2,593 and represents 61% of Jewell County's population. Incorporated towns within BNA 9762 include Mankato (pop. 1,037), Jewell (pop. 529), and Randall (pop. 96). BNA 9762 is designated as middle-income.

Based on 1997 Department of Housing and Urban Development (HUD) data, the estimated Non-Metropolitan Statistical Area's (non-MSA) median family income for the state of Kansas is \$36,100. There is a fairly even distribution of low-, moderate-, middle-, and upper-income families throughout both BNA 9762 and Jewell County. Heartland's AA's (BNA 9762) family breakdown by income levels is 23% low-income, 23% moderate-income, 27% middle-income, and 27% upper-income.

The local economy has a low unemployment rate at 1% and is primarily dependent upon agriculture. Non-farm production jobs exist in the following sectors: county and city government; primary, secondary, and post-secondary education; state youth correctional program; agricultural equipment manufacturing and sales; and medical services. The area's largest employers include Sunflower Manufacturing Co., Unified School

District (USD) #278, USD #279, North Central Vocational Technical School, Kansas Youth Center for juvenile female offenders, Jewell Implement Co., and the regional hospital. The major agricultural products for the region are wheat and cattle.

Business demographic data from the 1990 census show that Heartland's AA consists primarily of small businesses with sales less than \$500 thousand. For businesses within the bank's AA, the breakdown by sales levels is 78% with sales < \$500 thousand, 3% with sales from \$500 thousand to \$1 million, and 7% with sales from \$1 million to \$24 million. The percentage of businesses in the AA that did not report any gross revenue information was 12%.

We reviewed four community contacts performed by banking regulators since Heartland's prior CRA performance evaluation. Community contacts were generally satisfied with area banks' performance regarding agricultural, residential, and small-business lending. However, one contact suggested that area bankers form a consortium to fund a revolving loan program to provide start-up financing (\$20,000 to \$200,000) for middle-size businesses. The contact believed that the area banks do a good job of providing small-business loans, but the banks were wary of providing the large dollar loans required of start-up middle-size businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

Heartland's loan-to-deposit ratio is reasonable given its competitive environment, and its low legal lending limit due to its small size. The bank's average quarterly loan-to-deposit ratio equaled 39% for the period September 30, 1996 to December 31, 1997; this average excludes loans originated at the LPO.

As stated earlier, Heartland is the smallest in total asset size when compared to its five competitors. The bank's 42% loan-to-deposit ratio at December 31, 1997 ranked fourth compared to its competition. Loan-to-deposit ratios for Heartland's competitors ranged from 35% to 80% on the same date. However, when considering only the AA's "small" banks, those with total assets of \$20 million or less, Heartland's loan-to-deposit ratio ranks first.

The following table provides comparative information for Heartland and competing banks:

Bank Name	Total Assets 12-31-97	Loan-to-Deposit 12-31-97	Average Quarterly Loan-to-Deposit for the Period 9-30-96 to 12-31-97
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Heartland Bank N.A., Jewell, KS	\$10 million	103.18%	94.16%
		42.17%*	39.68%*
Guaranty State Bank and Trust Co., Beloit, KS	\$60 million	80.18%	68.29%
Farmers State Bank, Mankato, KS	\$54 million	65.88%	65.18%
First National Bank of Beloit, Beloit, KS	\$46 million	59.58%	50.96%
The State Exchange Bank, Mankato, KS	\$20 million	34.90%	29.16%
The Jamestown State Bank, Jamestown, KS	\$17 million	41.40%	38.42%

* Loan-to-Deposit Ratio excluding loans originated by the LPO.

Lending in Assessment Area

Heartland makes a majority of its loans within its AA. Based on a sample of 172 1-4 family real estate, consumer, commercial production, and commercial real estate loans originated during the period August 15, 1996 to April 6, 1998, we found that 74% by number and 61% by dollar volume were within the bank's AA.

The following table reflects the bank's lending activity within its AA by loan type:

<i>1-4 Family RE, Consumer, Industrial, and Commercial RE Lending within the Assessment Area (AA)</i>				
	#	%	\$	%
1-4 Family RE loans inside the AA	10	74%	\$217,000	61%
Consumer loans inside the AA	87		\$341,000	
Commercial production and Commercial RE loans inside the AA	30		\$812,000	
1-4 Family RE, Consumer, Com'l production, and Com'l RE loans outside the AA	45	26%	\$887,000	39%
Totals	172	100%	\$2,257,000	100%

Our sample included only 1-4 family real estate, consumer, commercial production and commercial loan originations, and does not reflect *all* loan originations since the bank's August 15, 1996 CRA performance evaluation. Our sample represented 84% by number and 82% by dollar volume of all loans originated since the bank's previous CRA evaluation.

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

Heartland's distribution of borrowers reflects excellent penetration among low- or moderate-income individuals. As shown in the table below, Heartland's consumer lending to low-income borrowers exceeded the market by fifteen percentage points. Since consumer loans by number represented the largest volume of

originations within the AA, we put the most weight on consumer lending rather than 1-4 family residential lending.

Income Designation of the Borrowers	Distribution of Heartland's 1-4 Family RE Loans within the Assessment Area (AA) based on Borrowers' Incomes		Distribution of Heartland's Consumer Loans within the Assessment Area (AA) based on Borrowers' Incomes		Income Designation of Families within the AA
	#	%	#	%	
Low-income	2	20%	33	38%	23%
Moderate-income	1	10%	26	30%	23%
Middle-income	4	40%	11	13%	27%
Upper-income	3	30%	17	20%	27%
Totals	10	100%	87	100%	100%

Heartland's distribution of borrowers reflects reasonable penetration among businesses of different sizes. As shown in the table below, the bank's commercial production and real estate lending to businesses with sales less than \$500 thousand exceeds the market slightly.

Gross Revenue Designation of the Borrower	Revenue Distribution of Commercial Production and Commercial Real Estate Loans within the assessment area (AA)			Revenue Distribution of Businesses within the AA
	#	%	%	%
< \$ 50,000	6	20%	83%	78%
\$ 50,000 - \$ 99,999	3	10%		
\$100,000 - \$249,999	15	50%		
\$250,000 - \$499,999	1	3%		
\$500,000 - \$999,999	0	0%	0%	3%
\$1,000,000 - \$24,000,000	5	17%	17%	7%
Totals	30	100%	100%	88%*

* Percentages do not total 100% because 12% of businesses within the bank's AA did not report any sales information.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful since Heartland's AA consists of only one BNA.

Response to Complaints

Heartland has not received any CRA-related complaints from its AA since its August 15, 1996 CRA examination.

Compliance with Anti-discrimination Laws and Regulations

Heartland is in compliance with the substantive provisions of anti-discrimination laws and regulations. We found no evidence of discrimination or disparate treatment in our review of the bank's lending practices.