



PUBLIC DISCLOSURE

September 14, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage First Bank
Charter Number 717927

1700 Turner Mccall Boulevard
Rome, GA 30161

Office of the Comptroller of the Currency

Three Ravinia Drive
Suite 550
Atlanta, GA 30346

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 Outstanding

Heritage First Bank's CRA performance demonstrates excellent responsiveness to the credit needs of its community. The following factors support this conclusion:

- The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and credit needs of the assessment area.
- The bank originated a majority of its loans within its assessment area.
- The distribution of loans among households and families of different income levels and businesses of different sizes is excellent, given the bank's product offerings and local economic conditions.
- The geographic distribution reflects excellent dispersion in the assessment area's moderate-income census tracts.
- The bank's Community Development (CD) efforts reflect responsiveness to the needs of the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of Heritage First Bank's (Heritage) ability to meet the credit needs of its community. We evaluated Heritage using the Small Bank evaluation procedures, which includes a lending test. The lending test evaluates an institution's record of helping to meet the credit needs of its assessment area (AA) through its lending activities. The sampling period for the lending test covers the institution's performance from January 1, 2012 to June 30, 2015, as this timeframe is most representative of the lending strategy since the last CRA examination. Heritage's primary loan products over the sampling period are residential real estate loans and business loans, specifically commercial real estate. To analyze various components under the lending test, we sampled 20 commercial real estate loans and utilized all Home Mortgage Disclosure Act (HMDA) data for loans originated during 2012, 2013, and 2014.

Heritage's small farm lending declined significantly from the last assessment period due to increased competition in that market. Therefore, farm lending was not included in this examination.

As part of this examination, management requested we give consideration to the bank's Community Development (CD) efforts. Management provided a report of all CD loans, as well as a list of all contributions made to organizations related to community development during the evaluation period.

DESCRIPTION OF INSTITUTION

Heritage First Bank is a thrift institution located in Rome, GA with approximately \$102 million in total assets as of June 30, 2015. The bank is wholly owned by Heritage First Bancshares, Inc. (HFBS), a single-asset bank holding company. During prior examinations, HFBS also owned a commercial bank in Alabama regulated by the Federal Reserve, but the holding company has since divested of this institution.

Heritage offers residential, consumer, and commercial loan products. Conventional mortgage products include fixed-rate and adjustable-rate loans for the purchase, refinance, and construction of single-family residences. In addition, the institution offers secured and unsecured consumer loans, including home equity lines of credit, and commercial real estate loans.

As of June 30, 2015, Heritage reported gross loans of \$71.2 million and total deposits of \$85.7 million. Net loans represented 84.2 percent of total assets. The business plan is to continue offering residential and commercial loans within the bank's defined AA. The breakdown of the bank's loan portfolio as of June 30, 2015 is below.

Loan Portfolio Summary by Loan Product June 30, 2015		
Loan Category	\$(000)	%
Residential Loans	\$24,909	34.17%
Commercial Loans (Secured by CRE)	\$23,075	31.66%
Other Commercial Loans	\$8,413	11.54%
Consumer Loans	\$6,739	9.24%
ADC Loans	\$4,667	6.40%
Multi-family	\$2,886	3.96%
Farmland/Agricultural	\$2,205	3.02%
Total Loans	\$72,894	100.00%

Source: Consolidated Report of Condition and Income for Heritage

There are no legal or financial impediments that hinder the bank's ability to meet the credit needs of its community. Heritage received an "Outstanding" rating at its last CRA examination dated January 4, 2010.

DESCRIPTION OF ASSESSMENT AREA(S)

Heritage has a single Assessment Area (AA) consisting of the Rome Metropolitan Statistical Area (Rome MSA). The Rome MSA includes the entirety of Floyd County. The AA is comprised of 20 census tracts; six moderate (30%), eight middle (40%), and six upper-income tracts (30%). There are no low-income tracts within the AA. The bank's AA meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income

census tracts. The leading employment sectors in the Rome MSA are healthcare and manufacturing. Major healthcare employers in the area include Floyd Medical Center, Redmond Regional Medical Center, and the Harbin Clinic. The following table reflects key demographic and economic characteristics of the bank’s AA based on 2010 US Census Bureau data.

Demographic Information for the Rome MSA AA						
Demographic Characteristics	#	% Low	% Moderate	% Middle	% Upper	% N/A
Geographies (Census Tracts)	20	0.00%	30.00%	40.00%	30.00%	0.00%
Population by Geography	96,317	0.00%	24.94%	44.98%	30.08%	0.00%
Owner-Occupied Housing by Geography	23,471	0.00%	16.79%	48.96%	34.26%	0.00%
Family Distribution by Income Level	24,356	22.17%	16.80%	21.33%	39.71%	0.00%
Household Distribution by Income Level	34,977	25.12%	15.71%	17.74%	41.44%	0.00%
Distribution of Low and Moderate Income Families throughout AA Geographies	9,490	0.00%	29.87%	46.93%	23.19%	0.00%
Census Median Family Income (MFI)	\$50,574					
HUD Adjusted MFI: 2015	\$49,800	Median Housing Value				\$115,273
HUD Adjusted MFI: 2014	\$52,300	Families Below the Poverty Level				17.11%
HUD Adjusted MFI: 2013	\$50,300	Unemployment Rate				5.11%

Source: 2010 US Census

Bank Competition

Heritage operates in a competitive market with both local community banks and large regional and multinational financial institutions. The Federal Deposit Insurance Corporation’s Deposit Market Share Report for June 30, 2014, indicates nine banks operate within the Rome MSA with 22 office locations. The market is dominated by large banks, including SunTrust Bank, Regions Bank, and Wells Fargo, representing 42.3 percent of the local deposit market. The majority of the remaining market share is held by regional banks, such as Synovus Bank and United Community Bank, at 32.5 percent. Heritage’s deposit market share is 5.8 percent.

Community Contact

During the CRA evaluation process, we made contact with a local entity involved in community development. The contact indicated that there is a continued need for financing to rehabilitate single-family housing in the area. The contact stated that there are multiple programs available throughout the city for lending to rehabilitate homes. According to the contact, Heritage has been generous in fundraisers for redevelopment projects, and the bank’s management team is involved in community redevelopment projects.

Please refer to the bank’s Public File for additional information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Heritage’s performance under the lending test is Outstanding. The bank meets the standard for excellent performance for both geographic and borrower distribution. Lending within the bank’s AA is reasonable. The bank maintains satisfactory performance for the loan-to-deposit ratio during the evaluation period. Details regarding these findings are below.

Loan-to-Deposit Ratio

Heritage’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and credit needs of the AA. We evaluated the bank’s LTD ratio over 21 quarters from October 1, 2009 to December 31, 2014. During this period, the bank’s quarterly LTD ratio averaged 79.4 percent, fluctuating between a low of 66.5 percent and a high of 97.3 percent. The bank’s LTD ratio compares favorably with other community banks of similar size and location. There are three similarly situated banks in the Rome MSA. These similarly situated institutions have a combined average LTD ratio of 75.1 percent, with a low of 70.9 percent and a high of 79.4 percent over the same evaluation period.

Lending in Assessment Area

Heritage originated a majority of its loans by number and dollar amount inside the AA. For the period reviewed, 78 percent of the loans by number and 70 percent by dollar volume were originated within the bank’s AA. The following table details the bank’s lending inside and outside of the AA during the evaluation period.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	44	86.3	7	13.7	51	3,088	88.2	414	11.8	3,502
Home Improvement	11	91.7	1	8.3	12	271	40.3	401	59.7	672
Home Refinance	57	69.5	25	30.5	82	6,023	52.4	5,471	47.6	11,494
Business Loans	17	85.00	3	15.00	20	6,794	90.17	741	9.23	7,535
Totals	129	78.18	36	21.82	165	16,176	69.72	7,027	30.28	23,203

Source: Data reported under HMDA; Loan Sample

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

The overall distribution of loans among households and families of different income levels and businesses of different sizes is excellent.

Residential Real Estate Lending

The distribution of residential real estate loans reflects excellent penetration given the demographics of the AA. The bank’s percentage of home purchase and home refinance lending to low-income borrowers significantly exceeds the demographic comparators. The bank did not

make any home improvement loans to low-income borrowers; however, home improvement lending to moderate-income borrowers in the AA exceeds the demographic comparator. Both home purchase and home refinance lending to moderate-income borrowers is reasonable, given the local economic conditions.

The bank’s performance is shown in the following table:

Table 2A - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	7.5	13.6	19.4	9.1	21.4	13.6	33.6	20.5
Home Improvement	16.7	0.0	17.7	18.2	17.7	0.0	41.7	45.4
Home Refinance	7.7	12.3	12.2	5.3	15.9	7.0	42.7	17.5

Source: Data reported under HMDA. (Borrower income was NA for 18.1% of home purchase, 6.2% of home improvement, and 21.5% of home refinance loans.)

Business Lending

The bank’s performance in lending to small businesses with gross revenues equal to or less than \$1 million is excellent at 80 percent compared to the 69 percent reporting businesses. The loans by dollar amount are near the characteristics of the AA at 63 percent. The following table shows the distribution of business loans among businesses of different sizes in the bank’s AA.

Table 2B - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	% ≤ \$1,000,000	% > \$1,000,000	% Unavailable/Unknown	% Total
% of AA Businesses	68.5	4.00	27.50	100.00
% of Bank Loans in AA by #	80.00	15.00	5.00	100.00
% of Bank Loans in AA by \$	63.17	21.19	15.65	100.00

Source: Loan Sample; Dunn and Bradstreet Data

Geographic Distribution of Loans

The overall geographic distribution of the bank’s loans indicates excellent dispersion considering the demographics of the AA. There are no low-income census tracts in the AA. Therefore, we focused on lending in moderate-income census tracts. Our review did not reveal any conspicuous gaps in lending in the AA.

Residential Real Estate Lending

The geographic distribution of residential real estate lending indicates excellent dispersion. The 2010 US Census reflects that 17 percent of owner-occupied housing is located in the moderate-income census tracts. Heritage’s aggregate residential lending in moderate-income tracts far

exceeds this level of owner-occupied housing. For home purchase and home improvement loans, the bank’s lending to borrowers in moderate-income census tracts significantly exceeds the demographic comparators. For home refinance loans, the bank’s performance of lending in moderate-income tracts is near to the demographic comparator. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	0.0	0.0	12.0	15.9	53.2	36.4	34.8	6.8
Home Improvement	0.0	0.0	14.6	18.2	50.0	36.3	35.4	18.2
Home Refinance	0.0	0.0	16.6	14.0	49.5	26.3	33.9	12.3

Source: Data reported under HMDA. (Census tract income is NA for 40.9% of home purchase, 27.3% of home improvement, and 47.4% of home refinance loans.)

Business Lending

Business loan originations in moderate-income census tracts far exceed the characteristics of the AA and shows excellent dispersion. The actual percentage for lending in moderate-income tracts indicates 65 percent, while the AA indicates 35 percent. The following table details the bank’s lending performance compared to the percentage of businesses in each census tract.

Table 3B - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.0	0.0	35.1	65.00	84.69	38.6	15.00	9.18

Source: Loan Sample; Dunn & Bradstreet data.

Community Development

Community Development lending is concentrated in affordable housing. During the evaluation period, the bank made \$2.3 million in loans to refinance or construct multi-family apartments in moderate-income tracts within the AA. We also noted that Heritage donated \$35 thousand over the evaluation period to various charities and non-profit organizations that target programs for low- and moderate-income individuals and families. All of the donations were made within the bank’s AA. The bank’s community development lending and investment record reflects responsiveness to the needs of the AA.

Responses to Complaints

Heritage has not received any CRA related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.