



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 6, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Headland National Bank
Charter Number 13752**

**40 S Main Street
Headland, AL 36345**

**Comptroller of the Currency
ADC - Birmingham
100 Concourse Parkway Suite 240
Birmingham, AL 35244**

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.

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INSTITUTION'S CRA RATING

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 an examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of the community.

This document is an evaluation of the CRA performance of The Headland National Bank (HNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of January 21, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR § 25.

This institution is rated Satisfactory. The rating is based on the following:

- Ninety-one percent of the loans have been made inside the bank's assessment area.
- The net loan-to-deposit ratio has significantly increased since the prior exam. The quarterly average ratio was 56%.
- HNB has a satisfactory level of lending to low-income borrowers and has improved their lending to moderate-income borrowers above demographic benchmarks.

DESCRIPTION OF INSTITUTION

The Headland National Bank (HNB) is an \$81 million community bank located in Headland, AL. Headland is located approximately 8 miles north of Dothan. The bank is majority owned by HNB Holding Company, a one-bank holding company. Headland National is comprised of one full service office including an automated teller machine (ATM). The bank also has an additional proprietary-owned ATM located a few miles north of the bank located at a convenience store on U.S. Highway 431. HNB offers a variety of products including real estate, consumer, agricultural, and commercial loans and various deposit accounts for consumers and businesses. The loan mix based on the 12/31/02 Call Report is as follows:

Loan Categories

Type	\$ Volume ('000)	\$ Percentage
Consumer Real Estate	\$11,503	31.28%
Commercial	\$10,557	28.71%
Commercial Real Estate	\$8,404	22.85%
Consumer	\$6,307	17.15%
Total	\$36,771	100.00%

Source: 12/31/02 Call Report

Headland National is in sound financial condition with no legal impediments, which would prevent it from meeting the credit needs of the community. The bank’s previous CRA rating was “Satisfactory” (12/97). The information was obtained using Home Mortgage Disclosure Act (HMDA) information and samples, which were analyzed and reviewed for accuracy.

DESCRIPTION OF HENRY, HOUSTON, AND DALE COUNTIES

Headland National’s assessment area (AA) is comprised of Henry County and the Dothan metropolitan statistical area (MSA), which includes Dale and Houston counties. The AA meets all CRA requirements and does not arbitrarily exclude any low and moderate-income tracts. Henry County is the host county for HNB. Headland is located in the lower part of Henry County. There are 6 block numbering areas (BNA) in Henry County. Four are middle-income BNA’s and 2 are upper-income BNA’s. The county is considered mostly rural with peanuts being the major agricultural product in the area. The population in the county is 15,374 with 4,316 families and 5,727 households. The weighted average median family income (WAMFI) is \$37,100. Nineteen percent of the families in Henry County are considered low-income (< 50% of WAMFI) and 14% are considered moderate-income (50% - 80% of WAMFI). Employment is centered primarily in agriculture, retail trade, and service. Eighty-seven percent of the businesses are considered small businesses (< \$1million revenue) with 68% of the companies employing between 1 and 4 persons. Major employers in the county are West Point Stevens, Great Southern Wood, Cutler Egg Products, and Golden Peanut Company. The unemployment rate is 6.4% for Henry County based on recent reports provided by the State of Alabama.

The Dothan MSA makes up the additional lending area for the bank’s AA. Dale and Houston counties comprise the MSA. There are 35 census tracts in the MSA, including 1 low-income tract, 5 moderate-income tracts, 23 middle-income tracts, 5 upper-income tracts, and 1 other (military area) tract. The total population for the MSA is 130,964 with 36,198 total families and 48,377 households. The weighted average median family income in the Dothan MSA is

\$43,400. Twenty-one percent of the population is considered low-income and 18% is considered moderate-income. Seventeen percent of the population is considered below poverty. Dothan is the largest city in the two-county area. The major industries in the area include retail trade and services. Eighty-eight percent of the businesses in the MSA are considered small businesses with 60% employing between 1 and 4 employees. The largest employers in the area include Sony Magnetic Products, Perdue Farms, Michelin Tire Corporation, and Pemco World Air Services. The unemployment rate is 4.9% in Dale County and 4.2% in Houston County as of November 2002 compared to the state average of 5.8%.

Competition in the bank's location is moderate given the area and the number of banks in Headland. HNB's main competition is from a branch of a large regional holding company and Southland Bank, a local state chartered bank. There are an additional 20 banks HNB competes with in the tri-county area. Headland National is a market leader in Headland, AL, but has a more limited role in the remaining AA. Headland National most commonly serves those BNA's surrounding the city of Headland and the BNA's closest to the Henry County border.

A community contact was made with the Headland Housing Authority, an organization formed to help low-income families find affordable housing. The contact stated that there was a healthy demand for low and moderate-income housing. He commented that there is an opportunity to lend to low and moderate-income families as well as small businesses. He also stated that larger manufacturing companies have come into the area reducing the economic impact of agriculture as a whole, but that it was good for the economy and that more jobs were being created as an effect. He also informed us that he had a good relationship with each bank in the Headland area and felt that all banks perform well at responding to the credit needs of low and moderate-income families and small businesses.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

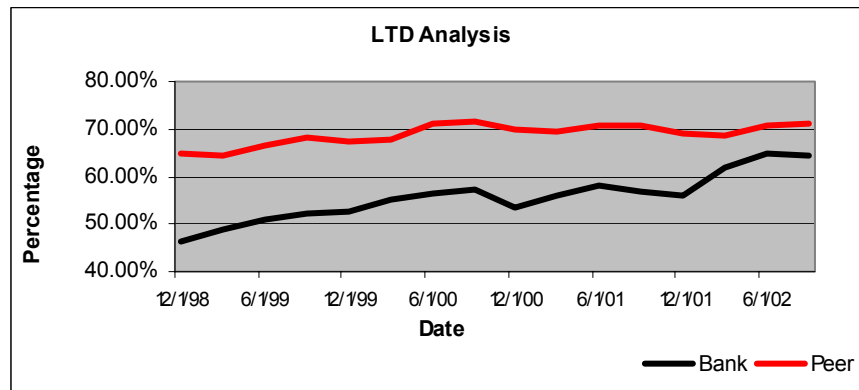
Headland National's loan mix centers on consumer real estate loans (31%) and commercial loans including commercial real estate (52% combined). To perform the analysis, information was collected from the bank's HMDA-LAR report and a sample of 22 commercial loans. The evaluation period was January 1999 through January 2003. The information was analyzed to determine the bank's performance with CRA requirements. Additional information used was the CRA Wiz reports, which include 1990 census data as well as updates for 2000.

Loan-to-Deposit Ratio

- Headland National's net loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD ratio has improved since the previous exam. The bank's quarterly LTD ratio was averaged over the past 16 quarters and is 56%. The average was 46% during the prior exam. This ratio is considered reasonable given the national peer average of 69%. Also, the current LTD ratio as of 9/30/02 was 65% compared to 68% for all other Alabama banks with less than \$100 million in assets. The graph below charts the improvement of HNB's LTD ratio compared

with the movement of the national peer average for the past 16 quarters.

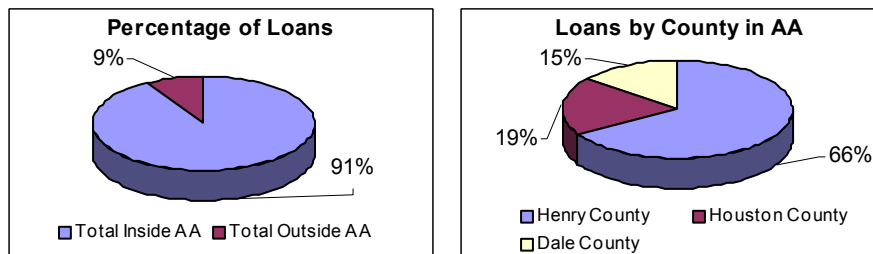


Source: Uniform Bank Performance Reports (12/31/98 – 9/30/02)

Lending in Assessment Area

- A substantial majority of both the dollar volume and the number volume of loans originated since the prior exam were made within the AA.

For all consumer real estate loans originated since 1/1/99, 91% (by #) and 85% (by \$) were made inside the AA. Of these loans, 66% were made in Henry, 15% in Dale, and 19% in Houston. One hundred percent of the commercial loans sampled were inside the AA.



Source: HMDA-LAR reports

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

- The distribution of lending to low and moderate-income borrowers in both Henry County and the Dothan MSA is satisfactory and meets the benchmarks set by the population percentages. HNB is also performing satisfactorily with loans made to small businesses.

Headland National Bank is performing in line with or better than the benchmarks for Henry County. Nineteen percent of the families in Henry County are low-income and 14% are moderate-income. Eighteen percent (by #) of the loans reviewed were made to low-income borrowers and 20% were made to moderate-income borrowers. HNB has improved its lending to moderate-income borrowers since the previous exam. Refer to Table 1 for further results.

Table 1:
Consumer RE Income Distribution - Henry County

Income Level	# of Families by Income	% of Families by Income	# of Loans Originated	% of Total (by #)	\$ of Loans Originated ('000)	% of Total (by \$)
Low-Income	827	19.16%	13	18.31%	\$329	10.22%
Moderate-Income	597	13.83%	14	19.72%	\$211	6.56%
Middle-Income	883	20.46%	11	15.49%	\$584	18.15%
Upper-Income	2,009	46.55%	33	46.48%	\$2,094	65.07%
Total	4,316	100.00%	71	100.00%	\$3,218	100.00%

Source: CRA Wiz & HMDA-LAR reports

Headland National Bank is performing satisfactorily in the Dothan MSA with lending to low and moderate-income borrowers. Twenty-one percent of the families in the Dothan MSA are low-income and 18% are moderate-income. According to the data, HNB made 12% of its loans by number to low-income families. This is below the benchmark for the Dothan MSA, but this is considered reasonable given the bank's one location and its performance with low-income borrowers in its host county. Also, the bank made 18% of its loans to moderate-income borrowers, which is in line with the benchmark. Refer to Table 2 for further results.

Table 2:

Consumer RE Income Distribution - Dothan MSA

Income Level	# of Families by Income	% of Families by Income	# of Loans Originated	% of Total (by #)	\$ of Loans Originated	% of Total (by \$)
Low-Income	7,470	20.64%	4	11.76%	\$132	7.30%
Moderate-Income	6,441	17.79%	6	17.65%	\$230	12.73%
Middle-Income	8,191	22.63%	10	29.41%	\$471	26.07%
Upper-Income	14,096	38.94%	14	41.18%	\$974	53.90%
Total	36,198	100.00%	34	100.00%	\$1,807	100.00%

Source: CRA Wiz & HMDA-LAR reports

The bank has also performed satisfactorily with respect to the number of loans made to small businesses. Twenty-two business loans were sampled and revealed that 77% of the loans were made to small businesses. Small businesses are based on revenues below \$1 million. The bank is slightly below the benchmark of 87%, but was reasonable. Refer to Table 3 for further results.

Table 3:

Commercial Loan Distribution

Revenue	# of Loans	\$ of Loans Originated (000's)	% of Total (by #)	Benchmark	% of Total (by \$)
\$0-\$0.5 (000's)	14	\$1,622	63.64%	83.59%	31.90%
\$0.5-\$0.99 (000's)	3	\$1,246	13.64%	3.52%	24.51%
Small Business	17	\$2,868	77.27%	87.11%	56.41%

Large Business	5	\$2,216	22.73%	8.40%	43.59%
Not Reported	N/A	N/A	N/A	4.49%	N/A
Total Business	22	\$5,084	100.00%	100.00%	100.00%

Source: CRA Wiz & Business Sample

Geographic Distribution of Loans

A geographic distribution was performed only on the consumer real estate loans originated in the Dothan MSA based on no low and moderate-income BNA's in Henry County. Thirty-two loans were made in the Dothan MSA. Zero loans were made inside the low-income tract, but this is reasonable given the number of families below the poverty level in that tract, which is 42%. Two loans were made in the moderate tracts, which is 6%. This is below the benchmark of 9%, but reasonable given the percentage of families below the poverty level. Overall, the total percentage of families located in the low and moderate-income tracts living below the poverty level was 30%. Also, the low and moderate-income BNA's are generally a greater distance from the bank's one location. Refer to Table 4 and the graph as reference guide.

Table 4:

Loans by Census Tract - Dothan MSA

Origination	% of Owner Occupied Housing	# of Loans in Census Tract	% of Total	\$ of Loans in AA ('000)	% of Total
Low Tract (1)	1.12%	0	0.00%	\$0	0.00%
Moderate Tract (5)	9.15%	2	6.25%	\$80	3.30%
Middle Tract (23)	71.62%	24	75.00%	\$2,009	82.98%
Upper Tract (5)	18.10%	2	6.25%	\$194	8.01%
Other - NA (1)	0.00%	4	12.50%	\$138	5.70%
Total (35)	100.00%	32	100.00%	\$2,421	100.00%

Source: CRA Wiz & HMDA-LAR reports

Responses to Complaints

Headland National Bank has not received any complaints about its performance in helping to meet assessment area needs during the evaluation period.

Fair Lending Review

An analysis of 1999 through 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.