

# **PUBLIC DISCLOSURE**

March 21, 2011

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Heritage Bank  
2700 Fort Campbell Blvd  
Hopkinsville, Kentucky 42240-4941  
Docket #: 04727**

**Office of Thrift Supervision  
Southeast Region  
1475 Peachtree Street, N.E.  
Atlanta, Georgia 30309**

**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.



**Office of Thrift Supervision**  
Department of the Treasury

*Southeast Region*

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June 16, 2011

Board of Directors  
Heritage Bank  
2700 Fort Campbell Blvd  
Hopkinsville, Kentucky 42240-4941

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of March 21, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Valorie Owen  
Senior Compliance Review Examiner

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## **General Information**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions 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 Heritage Bank (Heritage or Institution). The Office of Thrift Supervision (OTS) prepared the evaluation as of March 21, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

## **Institution**

### **Overall Rating**

**INSTITUTION'S CRA RATING:** **Outstanding**  
**The Lending Test is rated:** **Outstanding**  
**The Community Development Test is rated:** **Outstanding**

Heritage is rated “Outstanding record of meeting community credit needs”.

During the current review period, Heritage maintained a strong loan-to-deposit (LTD) ratio that averaged 83.2 percent, which was lower than that of similarly sized savings associations within the OTS.

Other measures of lending activity indicated that the Institution originated a strong volume of loan products, based upon its average asset size and in comparison to similarly sized OTS-regulated institutions. The Institution is a community savings association and originates a variety of lending products, including residential mortgage, nonresidential real estate, and commercial loans.

The majority of the 1-4 family residential loan origination activity (87.6 percent) was secured by properties located within the assessment area. The Institution’s overall record of lending to LMI borrowers within the assessment area is considered reasonable compared to area demographics and to that of similar mortgage lenders within the assessment area. The Institution’s record of lending within the moderate-income census tracts (CTs) within the assessment area is considered strong compared to area demographics and to that of similar mortgage lenders within the combined assessment area.

### **Scope of Examination**

At the preceding evaluation, conducted as of September 15, 2008, Heritage was assigned a CRA rating of “Outstanding record of meeting community credit needs”. The Institution’s performance for that evaluation was based upon the standards for an intermediate savings association.

On July 1, 2007, the OTS implemented a revised evaluation format for “intermediate small savings associations” (ISSA). To meet the ISSA definition, an institution must have total assets between \$250 million and \$1 billion on December 31 of each of the two calendar years prior to the current evaluation. The OTS also expanded the evaluation criteria to add a community development test to the existing small savings association criteria. Given Heritage’s asset size during the review period, its performance for this evaluation is again based upon the standards for an ISSA.

## ***Institution (continued)***

The time period reviewed for this evaluation is from January 1, 2008, through December 31, 2010. Products reviewed included purchase and refinance mortgage loans, home equity lines of credit, and home improvement loans originated during this period that were reportable under the Home Mortgage Disclosure Act (HMDA). Heritage's community development lending, investments, and services were also reviewed to arrive at the assigned overall rating.

### **Description of Institution**

Heritage is a federally chartered, stock savings association with total assets of approximately \$1.1 billion as of December 31, 2010, and is located in Hopkinsville, Christian County, Kentucky. The Institution operates 18 branch offices in nine counties and two states, Kentucky and Tennessee. The Institution is a subsidiary of HopFed Bancorp, Hopkinsville, Kentucky, a unitary savings and loan holding company whose principal business is the operation of Heritage.

Branches are located in Calloway (Murray - both), Christian (Hopkinsville - all), Fulton (Fulton - both), Marshall (Benton and Calvert City), Todd (Elkton), and Trigg (Cadiz) Counties, Kentucky; and Cheatham (Ashland City, Kingston Springs, and Pleasant View), Houston (Erin), and Montgomery (Clarksville - all) Counties, Tennessee.

Four branches are located in moderate-income CTs; ten branches are located in middle-income CTs; and four branches are located in upper-income CTs. In addition, there are 247 employees, 236 full-time and 11 part-time.

Heritage operates Automated Teller Machines (ATMs) at all but two branches, the downtown Hopkinsville location and one location in Fulton, Kentucky. None of the ATMs accept deposits. In addition, Heritage operates ATMs throughout the combined assessment area that are not at branch office locations. The Institution's ATM cards permit its customers to access their accounts through other institutions' ATM locations through the STAR, PLUS, Cirrus, Discover, American Express, MASTERCARD, and VISA Travel Money network systems.

Heritage operates as a traditional savings association, concentrating its operations in the origination of mortgage loans and the acceptance of deposits. With respect to mortgage lending, Heritage primarily engages in the origination of residential real estate loans. As of December 31, 2010, 60.6 percent of the Institution's total assets consisted of mortgage loans secured by permanent mortgages on single-family residences, multi-family dwellings, nonresidential property, and home improvements, as well as mortgage pool securities. In addition, 6.8 percent of total assets are invested in non-mortgage loans and 24.2 percent of total assets are invested in other types of securities.

## ***Institution (continued)***

Heritage offers conventional fixed- and adjustable-rate first and second mortgages for the purchase, refinance, improvement, and construction of single-family residences, as well as commercial mortgages. Loans secured by customer deposits, consumer loans, multi-family, home equity loans, and loans with private mortgage insurance are also available. The Institution retains all of its adjustable-rate mortgage loan production in its portfolio and sells the majority of its fixed-rate mortgage loan production in the secondary market.

## **Description of Combined Assessment Area**

Heritage's combined assessment area consists of all of Calloway, Christian, Fulton, Marshall, Todd, and Trigg Counties, Kentucky; and Cheatham, Houston, and Montgomery Counties, Tennessee. According to the 2000 Census, the area was comprised of 73 CTs with income designations including 12 moderate-income, 43 middle-income, and 18 upper-income CTs. There are no low-income CTs within the combined assessment area. The 2000 Census data will be used for an analysis of the Institution's 2008, 2009, and 2010 mortgage lending activity. The combined assessment area is located in southwestern Kentucky and north central Tennessee.

Some of the counties are part of Metropolitan Statistical Areas (MSAs) and some are not. Christian and Trigg Counties, Kentucky and Montgomery County, Tennessee are part of the Clarksville, Tennessee MSA. Cheatham County, Tennessee is part of the Nashville MSA. Calloway, Fulton, Marshall, and Todd Counties, Kentucky and Houston County, Tennessee are not located in MSAs.

The examiner also notes that the combined assessment area contains eight middle-income CTs classified as distressed due to poverty and/or unemployment, or are considered underserved. Two tracts are located in Fulton County, Kentucky, three are located in Todd County, Kentucky, and three are located in Houston County, Tennessee.

A moderate-income CT is one with a MFI of at least 50.0 percent, and less than 80.0 percent of the MFI of a non-metropolitan area of a state or an MSA, a middle-income CT is one with a MFI of at least 80.0 percent, and less than 120.0 percent, of the MFI of a non-metropolitan area of a state or an MSA, and an upper-income CT is one with a MFI of 120.0 percent or more of the MFI of a non-metropolitan area of a state or an MSA.

The combined assessment area's economies appear to be diversified and not heavily dependent upon any one industry or employer. However, the presence of the U.S. Army at Fort Campbell, Kentucky heavily influences the local economies of Christian County, Kentucky and Montgomery County, Tennessee. The combined assessment area also has a significant manufacturing base with numerous

***Institution (continued)***

plants located within the area. These companies produce a wide variety of products including, but not limited to, lawn mower engines, small electric motors, automobile parts, plastic injection and die cast molds, and clothing. Some of the areas' largest employers are A.O. Smith Water Products, Trane Company, Murray State University, Austin Peay State University, Gateway Medical Center, Wal-Mart, Pella Corporation, ISP Chemicals, Inc., Briggs & Stratton, as well as numerous service industry businesses, federal, state, municipal, educational systems; and medical systems throughout the combined assessment area.

A summary of certain demographic characteristics for the combined assessment area based upon 2000 Census data is as follows:

DEMOGRAPHICS OF CTs			FAMILY DISTRIBUTION	
CT Category	Population	Owner Occupied Housing Units	Income Category	Distribution of Families
Low	-0-	0.0%	Low	16.9%
Moderate	48,088	6.3%	Moderate	18.8%
Middle	213,908	62.9%	Middle	23.5%
Upper	<u>85,659</u>	<u>30.8%</u>	Upper	<u>40.8%</u>
<b>Total</b>	<b>347,655</b>	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>

The examiner's review of 2000 Census data disclosed the following additional information about the combined assessment area:

Total Population	347,655
Population 16 and older	264,970 (76.2%)
Population Over 65	37,503 (10.8%)
Total Housing Units	143,073
Owner-Occupied Housing Units	87,203 (60.9)
Rental Occupied Units	41,373 (28.9%)
1 - 4 Family Units	132,942 (92.9%)
Multi-Family Units	10,131 (7.1%)
Total Families	94,190
Families Below the Poverty Level	8,657 (9.2%)

In addition, the Institution encounters substantial competition from many other financial institutions within the combined assessment area. Specifically, as of June 30, 2010, the latest information available, a total of 22 commercial banks and four savings associations, which includes Heritage, maintained a total of 138 offices within the combined assessment area. This included several institutions that are multi-state, regional, national, or larger institutions with several branches outside

### ***Institution (continued)***

of the combined assessment area such as Regions Bank, Branch Banking & Trust Company, U.S. Bank, N.A., and Bank of America. As of June 30, 2010, all institutions held approximately \$5.3 billion in deposits within the assessment area. Heritage held the largest percentage of deposits, approximately 15.9 percent of the combined assessment area's total deposits.

The examiner concludes that the combined assessment area is consistent with regulatory requirements.

### **Conclusions With Respect To Performance Tests**

#### **Lending Test**

##### Loan-to-Deposit Ratio

Information compiled from the OTS's Thrift Financial Reports disclosed that Heritage's LTD ratio averaged 83.2 percent over the review period. This ratio is lower than the average LTD ratio of 95.1 percent during this period for similarly sized institutions within OTS.

Notwithstanding that Heritage's average LTD ratio was lower than that of its peer group, the examiner concludes that the Institution's LTD ratio exceeds the standard for satisfactory performance for this criterion.

***Institution (continued)***

Lending within the Combined Assessment Area

Heritage maintained a loan/application register during the review period. After reviewing these records, the examiner determined that the Institution originated a total of 1,608 mortgage loans between January 1, 2008, and December 31, 2010. The examiner further determined that the majority of the originated mortgage loans were secured by property located within the combined assessment area as described below:

<b>LOAN APPROVALS/ORIGINATIONS DURING THE REVIEW PERIOD</b>				
<b>Approvals/Originations</b>	<b>Number</b>	<b>Pct. No.</b>	<b>Volume (000s)</b>	<b>Pct. of \$</b>
<b>Inside Assessment Area</b>	1,409	87.6%	\$154,793	86.0%
<b>Outside Assessment Area</b>	<u>199</u>	<u>12.4%</u>	<u>25,215</u>	<u>14.0%</u>
<b>Total</b>	<b>1,608</b>	<b>100.0%</b>	<b>\$180,008</b>	<b>100.0%</b>

The majority of Heritage’s mortgage loan originations are generated within the Christian and Marshall Counties, Kentucky geographic area. The following table presents the Institution’s overall mortgage lending activity during the review period separated by geographic area:

<b>Assessment Area</b>	<b>Originations</b>
Christian County, KY	335/ 23.8%
Marshall County, KY	303/ 21.5%
Calloway County, KY	232/ 16.5%
Montgomery County, TN	210/ 14.9%
Trigg County, KY	126/ 8.9%
Todd County, KY	84/ 6.0%
Cheatham County, TN	47/ 3.3%
Houston County, TN	45/ 3.2%
Fulton County, KY	27/ 1.9%
<b>Totals</b>	<b>1,409/100.0%</b>

***Institution (continued)***

In addition, the Institution’s deposits are dispersed within the assessment areas as detailed below:

Assessment Area	Deposits (000's)
Christian County, KY	191.3/ 25.1%
Marshall County, KY	85.2/ 11.2%
Calloway County, KY	115.0/ 15.1%
Montgomery County, TN	58.5/ 7.6%
Trigg County, KY	41.7/ 5.5%
Todd County, KY	51.2/ 6.7%
Cheatham County, TN	60.1/ 7.9%
Houston County, TN	11.9/ 1.6%
Fulton County, KY	146.9/ 19.3%
Totals	761.8/100.0%

Based upon the data referenced above, the examiner concludes that Heritage’s level of mortgage lending within the combined assessment area exceeds the standard for satisfactory performance for this criterion.

Lending to Borrowers of Different Income Levels

In order to evaluate Heritage’s record of lending to borrowers of different income levels for 2008, 2009, and 2010, family income levels were stratified as a percentage of the updated MFI for the Clarksville and Nashville MSAs, as well as the non-metropolitan areas of Kentucky and Tennessee. The updated MFI figures, as provided by the Department of Housing and Urban Development, for the Clarksville and Nashville MSAs, and non-metropolitan areas of Kentucky and Tennessee for 2008, 2009, and 2010 were \$51,300, \$52,900, and \$52,500, respectively; \$63,200, \$64,900 and \$65,200, respectively; \$41,000, \$42,300, and \$42,500, respectively; and \$44,400, \$46,300, and \$46,400, respectively.

From information contained in the Institution’s records, the examiner compiled the following borrower income distribution statistics:

Income Category	Percent of MFI	Number	No. Pct.	Volume (\$000s)	Pct. of \$	Distribution Of Families
<b>Low</b>	<50%	74	5.8%	3,919	2.9%	16.9%
<b>Moderate</b>	≥50-<80%	184	14.3%	12,280	9.1%	18.8%
<b>Middle</b>	≥80-<120%	287	22.4%	24,558	18.2%	23.5%
<b>Upper</b>	≥120%	<u>737</u>	<u>57.5%</u>	<u>94,206</u>	<u>69.8%</u>	<u>40.8%</u>
<b>Total</b>		<b>1,282*</b>	<b>100.0%</b>	<b>\$134,963</b>	<b>100.0%</b>	<b>100.0%</b>

\*Applicant income was not available for 127 originations totaling approximately \$19.8 million.

***Institution (continued)***

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within the combined assessment area. However, Heritage’s ability to originate mortgage loans to low-income borrowers may be influenced by family poverty levels. The examiner noted that according to the 2000 Census, approximately 54.6 percent of the low-income families residing within the combined assessment area have incomes below the poverty level (9.2 percent of all families living within the combined assessment area have incomes below the poverty level). The Institution’s level of mortgage lending to moderate-income borrowers was also below the percentage of moderate-income families residing within the combined assessment area for applications where the borrower’s income was recorded.

Heritage’s overall record of lending to borrowers of different income levels was also compared to the lending activity of other lenders subject to the CRA that maintained offices within the combined assessment area, focusing upon LMI borrowers. In accordance with the HMDA, creditors with total assets greater than \$250 million and a branch office located within an MSA, must submit certain information regarding mortgage loans for purchase, refinance, and home improvement purposes for all property locations. This information was derived from 2008 and 2009 HMDA Aggregate information, the latest available.

Based upon the data shown below for 2008 and 2009, Heritage’s combined record of lending to LMI borrowers was lower than that of other lenders within the combined assessment area, and both were below the combined assessment area’s LMI demographics.

**2008/2009 Aggregate HMDA Borrower Income Analysis for Mortgage Loan Originations of similar products by other lenders within the Combined Assessment Area**

<b>Income Category</b>	<b>Percent Of MFI</b>	<b>Heritage Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution of Families</b>
<b>Low</b>	<50%	5.4%	5.2%	16.9%
<b>Moderate</b>	≥50-<80%	14.7%	19.6%	18.8%

Based upon the above data, including family poverty levels, the examiner determined that Heritage’s overall level of lending to borrowers of different income levels meets the standard for satisfactory performance for this criterion.

***Institution (continued)***

Geographic Distribution of Loans

The examiner also performed a review to determine the adequacy of dispersion of lending with regard to lending within the moderate-income areas of the combined assessment area for 2008, 2009, and 2010. Specifically, the examiner analyzed the percentage of residential mortgage loans, by number and dollar amount of the mortgage loans originated by Heritage within the moderate-income CTs compared to the percentage of owner-occupied housing units (OOHUs) located within those areas.

The analysis disclosed the following information concerning the Institution’s record of residential mortgage lending throughout the different CTs within the combined assessment area. The percentage of OOHUs is derived from the 2000 Census:

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Volume (\$000s)</b>	<b>Pct. Of \$</b>	<b>Distribution of OOHUs</b>
<b>Moderate</b>	≥50-<80%	103	7.3%	6,134	4.0%	6.3%
<b>Middle</b>	≥80-<120%	740	52.5%	78,559	50.7%	62.9%
<b>Upper</b>	≥120%	566	40.2%	70,100	45.3%	30.8%
<b>Total</b>		<b>1,409</b>	<b>100.0%</b>	<b>\$154,793</b>	<b>100.0%</b>	<b>100.0%</b>

As indicated above, the Institution’s overall record of lending in the moderate-income areas was slightly higher than the combined assessment area’s demographics on a number basis, but below the combined area’s demographics on a dollar volume basis.

Heritage’s overall record of lending within the moderate-income CTs was also compared to the lending activity of other lenders subject to the CRA that maintained offices within the combined assessment area. This information was derived from the 2008 and 2009 HMDA Aggregate information, the latest available. In order to provide a more accurate comparison, the lending activity was compiled for all types of mortgage loans for single-family dwellings originated by lenders subject to the CRA, focusing upon mortgage lending in the moderate-income CTs.

***Institution (continued)***

Based upon this data for 2008 and 2009, Heritage’s level of lending within the moderate-income CTs was significantly higher than that of other lenders, as well as the combined assessment area’s demographics as indicated below:

**2008/2009 Aggregate HMDA Geographic Distribution Analysis for Mortgage Loan Originations of similar products by other lenders within the Combined Assessment Area**

<b>Income Category</b>	<b>Percent Of MFI</b>	<b>Heritage Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution Of O.O.H.U.</b>
<b>Moderate</b>	≥50-<80%	8.3%	4.5%	6.3%

Based upon the Institution’s overall level of lending within the moderate-income CTs, the examiner determined that Heritage’s overall geographic distribution of lending for the review period exceeds the standard for satisfactory performance for this criterion.

Further, in an effort to increase its level of lending to LMI borrowers, the Institution offers the following flexible loan products:

Federal Home Loan Mortgage Corporation - These programs offer more underwriting flexibility for LMI borrowers and loan-to-value (LTV) ratios up to 100.0 percent depending upon the program. Maximum allowable borrower income varies depending upon where the eligible property is located. Eligible properties include single-family residences, condominiums, and town homes, but not manufactured homes. The borrowers must occupy the security property. Down payments could be paid from borrower’s own funds, gifts, or an unsecured loan from a family member, grant or unsecured loan from a municipality or nonprofit organization. Private mortgage insurance is required on the portion of the principal amount above 90.0 percent.

Welcome Home Program (WHP) - This is a grant program in connection with the Federal Home Loan Bank of Cincinnati (FHLBC) and is designed to create owner-occupied housing opportunities for LMI borrowers. The grants are for the purchase of a primary residence and can be used for down payments, closing costs, or homeowner counseling. The maximum grant is for \$5,000. If the property is sold or refinanced within the initial five years, a portion may have to be repaid.

### ***Institution (continued)***

Based upon Heritage's overall record of lending within the assessment area, a rating of "Outstanding" is assigned for the Lending Test. As noted, the majority of the mortgage loan originations were secured by properties located within the Institution's combined assessment area. Lending to LMI borrowers was reasonable compared with area demographics and that of other lenders originating HMDA reportable mortgage loans within the combined assessment area. Lending within moderate-income CTs was strong compared with area demographics and that of other lenders originating HMDA reportable mortgage loans within the combined assessment area.

### ***Community Development Test***

#### ***Community Development Lending***

Since the preceding evaluation, Heritage originated 11 loans that qualify as community development loans totaling approximately \$8.8 million that were secured by properties located within the combined assessment area or an area adjacent to the combined assessment area. These loans are as follows:

Bowling Green, Kentucky, one loan for \$422,270. The LLLP is a partnership with the Housing Authority of Bowling Green and the loan proceeds were to assist in the construction of 36 housing units for senior citizens with limited incomes. The majority of the financing came from a Department of Housing and Urban Development Section 202 Supportive Housing for the Elderly grant. The property is located in a moderate-income CT.

Clarksville, Tennessee, one loan for \$1,088,300. The loan proceeds were for the acquisition of a multi-family building with 23 units in Clarksville. Although the property is located within an upper-income CT, the unit rental rates are within a range which would be attractive to LMI families.

One loan to an individual for \$493,000. The loan proceeds were for the refinancing from another institution of a multi-family building with 22 units in Clarksville. Although the property is located within a middle-income CT, the unit rental rates are within a range which would be attractive to LMI families.

Madison, Tennessee, one loan for \$3,200,000. The loan proceeds were for the purchase and renovation of a multi-family building with 250 units in Madison. The property is located in a moderate-income CT.

One loan to an individual for \$900,000. The loan proceeds were for the refinancing from another institution of a multi-family building with 22 units in Eddyville, Kentucky. Although the property is located within a middle-income CT, the unit rental rates are within a range which would be attractive to LMI families.

### ***Institution (continued)***

Six loans to an individual totaling \$2,733,226. The loan proceeds were for the refinancing of a multi-family building with 16 units in Clarksville. Although the property is located within a middle-income CT, the unit rental rates are within a range which would be attractive to LMI families and the units are located north of Clarksville near Fort Campbell.

Further, four community development loans described in the preceding evaluation are still on the Institution's balance sheet with outstanding balances totaling approximately \$7.2 million.

In addition to the above, the Institution originated two Small Business Administration 504 Program loans during the review period totaling approximately \$487,000.

### Community Development Investments

During the review period, Heritage made a moderate level of charitable contributions, primarily within the combined assessment area. Specifically, Heritage made charitable grants/contributions totaling \$336,867 (\$154,647, \$91,983 and \$90,237 during 2008, 2009, and 2010, respectively). Based upon the examiner's review of an itemized list of the recipients of these contributions, it was determined that the majority of the contributed funds were to non-profit organizations. Further, a fair percentage of these contributions met the definition of community development investments. The examiner was able to determine that monetary contributions/grants totaling \$49,023 (\$11,421, \$17,352 and \$20,250 for 2008, 2009, and 2010, respectively) were to organizations that addressed these needs.

Further, the Institution has invested in a number of securities which address community development needs. Investments in these securities total approximately \$8.6 million at the start of this review.

Heritage has an ongoing investment of \$100,000 with The Housing Fund, Inc. (THF), Nashville, Tennessee. THF was formed in 1996 and is a private 501(c)(3) organization established to finance affordable housing and neighborhood revitalization projects throughout middle Tennessee and southern Kentucky. THF has a pool of funds that is used to provide financial resources to help LMI families become homeowners and to assist non-profit and for-profit developers in increasing the supply of affordable housing.

In addition to the above, Heritage has entered into an agreement with the Hopkinsville chapter of Habitat for Humanity to purchase mortgages in order to make funds available to build more homes. In October 2006, the Institution approved the purchase of up to \$2,000,000 in Habitat mortgages. As of the start of this review, six mortgages have been purchased totaling approximately \$89,054.

***Institution (continued)***

In 2010 Heritage committed \$1,500,000 to the Housing Equity Fund of Kentucky, II, LLC (aka Federation of Appalachian Housing Enterprises (FAHE)), Berea, Kentucky. Formed in 1980, the FAHE is working to eliminate poverty in the Appalachian areas of Kentucky by improving the quality and variety of affordable housing. The FAHE is currently involved with the construction or rehabilitation of four multi-family projects within Kentucky that will ultimately make between 18 and 68 units, depending upon the individual project, of affordable housing available.

Community Development Services

***Heritage Branch Office/ATM Kentucky Locations***

County	City Location	Income Level of Geography	ATM
<b>Calloway</b>	Murray (2)	Middle	Yes – both
<b>Christian</b>	Hopkinsville	Moderate	Yes
	Hopkinsville	Moderate	No
	Hopkinsville	Upper	Yes
<b>Fulton</b>	Fulton	Middle	Yes
	Fulton	Middle	No
<b>Marshall</b>	Benton	Upper	Yes
	Calvert City	Upper	Yes
<b>Todd</b>	Elkton	Middle	Yes
<b>Trigg</b>	Cadiz	Middle	Yes
<b>Total</b>	<b>11 Branch Offices</b>		<b>9 ATMs</b>

***Heritage Branch Office/ATM Tennessee Locations***

County	City Location	Income Level of Geography	ATM
<b>Cheatham</b>	Ashland City	Moderate	Yes
	Kingston Springs	Middle	Yes
	Pleasant View	Middle	Yes
<b>Houston</b>	Erin	Middle	Yes
<b>Montgomery</b>	Clarksville	Moderate	Yes
	Clarksville	Middle	Yes
	Clarksville	Upper	Yes
<b>Total</b>	<b>7 Branch Offices</b>		<b>7 ATMs</b>

As noted above, four branches (Hopkinsville (2), Ashland City, and Clarksville) are located in moderate-income CTs. Ten branches are located in middle-income CTs and four are located in upper-income CTs.

In addition to the above, Heritage also operates three ATMs in Kentucky that are not connected with branches (Cadiz, Hopkinsville, and Murray). These ATMs are located in middle-income CTs and are all owned by Heritage.

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***Institution (continued)***

In addition, the Institution operates another 41 ATMs within the combined assessment area that are “branded” as Heritage ATMs, but are not owned by the Institution. Of these, eight are located in moderate-income CTs, 22 are located in middle-income CTs, and 11 are located in upper-income CTs. The CT designation for one ATM could not be determined.

Since the preceding evaluation, Heritage did not open or close any branch office locations. However, the Institution has adopted a branch closing policy that outlines certain procedures to be followed in the event of a branch closing.

The lobbies of Heritage’s offices open for business at various hours depending upon their location, generally from either 8:30 a.m. or 9:00 a.m. until 4:00 p.m., Monday through Thursday and until 5:00 p.m. or 6:00 p.m. on Friday. The drive-ins are open 8:30 a.m. until 4:00 p.m., Monday through Thursday and until 5:00 p.m. or 6:00 p.m. on Friday. Sixteen of 18 offices are open on Saturday. The lobbies’ hours on Saturday are from either 8:30 a.m. or 9:00 a.m. until noon. The drive-ins’ hours on Saturday are from 8:30 a.m. until noon. The overall hours of operation are adequate and consistent with those of the Institution’s competitors in the various markets it serves.

Heritage offers a wide range of deposit products including personal and commercial checking accounts. Although not specifically targeted to LMI individuals, the Institution offers a checking account, Free Checking Account, which should be attractive to LMI individuals. The Free Checking Account has no minimum balance requirement and an opening deposit requirement of \$100.00. The Institution retains the checks, the number of checks per month is unlimited, and online banking and bill paying services are free. As of the start of this evaluation, the Institution had 9,827 Free Checking Accounts with balances totaling approximately \$21.5 million. Although no interest is paid on this account, it is the examiner’s opinion that this account would be attractive to LMI individuals.

Heritage has developed a checking account targeted toward students, the Student Free Checking account. This account has a minimum opening deposit requirement of \$100.00. The Institution retains the checks, the number of checks per month is unlimited, and online banking and bill paying services are free. Interest is not payable on this account. As of the start of this evaluation, the Institution had 1,392 Student Free Checking accounts with balances totaling approximately \$1.4 million.

Further, Heritage has developed a checking account targeted toward individuals who have been declined when attempting to open a checking account at another institution, the Fresh Start Checking account. This account has a setup fee of \$10.00 and monthly service fee of \$10.00. The Institution retains the checks, the number of checks per month is unlimited, and online banking and bill paying services are free. The accountholder also has free ATM withdrawals from Heritage ATMs. Interest is not payable on this account. As of the start of this evaluation, the Institution had 145 Fresh Start Checking accounts with balances totaling approximately \$108,000.

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***Institution (continued)***

Heritage has also developed a savings account targeted toward accountholders under the age of 18, the Pioneer Savings account. This account has a \$25.00 minimum opening deposit requirement and a \$25.00 minimum balance requirement. As of the start of this evaluation, the Institution had 609 Pioneer Savings accounts with balances totaling approximately \$472,100.

Further, Heritage has developed a program that provides scholarship money to 29 high schools within the combined assessment area. During the review period, the program provided 156 scholarships totaling \$78,000. Although there are no LMI criteria for the students, four of the schools are located within moderate-income CTs.

In addition, Heritage employees and directors are active in official capacities in several civic organizations that are engaged in community development activities. Below is a partial list of the official capacities in which Institution individuals serve:

- Board Member – Calvert City Planning and Zoning Board
- Board of Trustees Member – Parkway Regional Hospital, Fulton
- Vice President – Houston County Chamber of Commerce
- Board Member – Highland Rim Economic & Development Corporation, Houston County
- Member - Budget and Allocation Committee – Houston County United Way
- Chairman and Board Member – Christian County United Way
- Board Member – Hopkinsville/Christian County Economic Development Council
- Executive Board Member – Cheatham County Development Association
- Member – Cheatham County Joint Economic and Community Development Board
- Board Member – Community Foundation of Cheatham County
- Advisory Board Member – Cheatham County Habitat for Humanity
- Vice Chairman – Community Development Services, Christian County
- Board Member – Hopkinsville Community College Foundation
- Board Member – Minority Economic Development Initiative of Western Kentucky,

Inc.

In addition to the above, Institution employees have been involved in numerous community organizations donating thousands of hours of their personal time to improve the communities in which they live and work. The time donated has averaged over 11,000 hours for every year within the review period.

### ***Institution (continued)***

Heritage is also very active with several chapters of Habitat for Humanity. In Fulton County, an institution employee is responsible for all record keeping for the local chapter, including recording homeowner payments and assisting prospective homeowners with understanding the repayment process.

Further, the Institution has served as a community leader in Cheatham and Montgomery Counties, Tennessee by collecting food, clothing cleaning supplies, and water in 2010 for the area's flood victims.

In Hopkinsville, Institution personnel worked with high school students living in low-income areas to teach them about saving money, budgeting, and finding employment.

Lastly, Heritage's Kingston Springs, Tennessee, branch serves as a collection, storage, and distribution center for the local food bank.

Based upon Heritage's overall record within the assessment area, a rating of "Outstanding" is assigned for the Community Development Test. The rating is based upon Heritage's level of community development lending, investments, and services.

### **Fair Lending or Other Illegal Credit Practices Review**

#### Record of Compliance with Anti-discrimination Laws and Regulations

A sample of loan application files was reviewed at the Institution's most recent compliance examination to determine the Institution's level of compliance with anti-discrimination laws and regulations, including the OTS Nondiscrimination Regulations; the Equal Credit Opportunity Act and its implementing regulation, Regulation B; and the Fair Housing Act. That review disclosed no evidence of prohibited discriminatory lending practices or other illegal credit practices, and it appeared that all applicants were treated consistently and in accordance with the Institution's written underwriting guidelines.

#### Response to Community Complaints

No complaints concerning Heritage's performance in meeting the credit needs of the combined assessment area have been received since the preceding evaluation.

## ***Institution (continued)***

### ***State***

### ***Summary***

#### CRA Rating for Kentucky

**CRA RATING<sup>a</sup>:**

**The Lending Test is rated:**

**The Community Development Test is rated:**

**Outstanding**

**Outstanding**

**Outstanding**

An analysis of Heritage's mortgage lending for this assessment area indicated that 646, or 45.8 percent, of the originated HMDA reportable mortgage loans for this review period were secured by properties located within this assessment area. The distribution of mortgage loans among low-income borrowers was lower than this area's demographics, but commensurate with that of other lenders subject to the CRA for 2008 and 2009, the latest years for which information relative to other lenders was available. Heritage's distribution of mortgage loans among moderate-income borrowers was somewhat lower than this area's demographics, as well as that of other lenders subject to the CRA for 2008 and 2009.

Heritage's mortgage lending by geographic distribution for this assessment area was not reviewed as all of the CTs within this assessment area are classified as either middle- or upper-income.

In addition, Heritage's level of community development lending, investments, and services within this assessment area was strong during the review period given its resources.

#### Scope of Examination

A review of Heritage's CRA performance within this assessment area was conducted for the period beginning January 1, 2008, and ending December 31, 2010. Lending and community development activities were also included in this review.

#### Description of Institution's Operations in Kentucky

Heritage operates a total of seven offices in the non-metropolitan area of Kentucky, two in Calloway County (Murray), two in Fulton County (Fulton), two in Marshall (Benton and Calvert City), and

<sup>a</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation is adjusted and does not reflect performance in the parts of those states contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

***Institution (continued)***

one in Todd County (Elkton). Five branches are located in middle-income CTs, and two are located in upper-income CTs.

**Description of Kentucky Assessment Area**

Heritage’s non-metropolitan Kentucky assessment area comprises all of Calloway, Fulton, Marshall and Todd Counties. This assessment area included 20 CTs with income designations, no low-income, no moderate-income, 11 middle-income, and nine upper-income CTs as of the 2000 Census.

The 2000 Census data will be used to evaluate the Institution’s lending to borrowers of different incomes and geographic distribution for the Institution’s 2008, 2009, and 2010 mortgage lending activity.

A summary of certain geographic characteristics for this assessment area based upon 2000 Census data is as follows:

<b>DEMOGRAPHICS OF CTs</b>			<b>FAMILY DISTRIBUTION</b>	
<b>CT Category</b>	<b>Population</b>	<b>Owner-Occupied Housing Units</b>	<b>Income Category</b>	<b>Distribution of Families</b>
Low	-0-	0.0%	Low	15.0%
Moderate	-0-	0.0%	Moderate	14.5%
Middle	44,029	46.4%	Middle	20.2%
Upper	<u>39,996</u>	<u>53.6%</u>	Upper	<u>50.3%</u>
<b>Total</b>	<b>84,025</b>	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>

### ***Institution (continued)***

The examiner's review of 2000 Census data disclosed the following additional information about this assessment area:

Total Population	84,025
Population 16 and older	67,922 (80.8%)
Population Over 65	13,426 (15.9%)
Total Housing Units	39,617
Owner-Occupied Housing Units	25,294 (63.8)
Rental Occupied Units	8,786 (22.2%)
1 - 4 Family Units	30,669 (77.4%)
Multi-Family Units	1,798 (4.5%)
Total Families	23,200
Families Below the Poverty Level	2,367 (10.2%)

In addition, the Institution encounters substantial competition from many other financial institutions within this assessment area. Specifically, as of June 30, 2010, the latest information available, a total of 11 commercial banks and three savings associations, including Heritage, maintained a total of 42 offices within this assessment area. This included several institutions that are multi-state, regional, national, or larger institutions with several branches outside of the combined assessment area such as U.S. Bank, N.A., Regions Bank, and Branch Banking & Trust Company. As of June 30, 2010, all institutions held approximately \$1.7 billion in deposits within this assessment area. Heritage held approximately 23.2 percent of this assessment area's total deposits.

### **Conclusions with Respect to Performance Tests in Kentucky**

#### Lending to Borrowers of Different Income Levels

In order to evaluate Heritage's record of lending to borrowers of different income levels for 2008, 2009, and 2010 family income levels were stratified as a percentage of the updated MFI for non-metropolitan Kentucky. The updated MFI figures, as provided by the Department of Housing and Urban Development, for non-metropolitan Kentucky for 2008, 2009, and 2010 were \$41,000, \$42,300 and \$42,500, respectively.

***Institution (continued)***

From information contained in the Institution’s records, the examiner compiled the following borrower income distribution statistics:

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Volume (\$000s)</b>	<b>Pct of \$</b>	<b>Distribution Of Families</b>
<b>Low</b>	<50%	19	3.0%	964	1.4%	15.0%
<b>Moderate</b>	≥50-<80%	71	11.4%	3,699	5.2%	14.5%
<b>Middle</b>	≥80-<120%	144	23.0%	11,674	16.6%	20.2%
<b>Upper</b>	≥120%	<u>391</u>	<u>62.6%</u>	<u>54,012</u>	<u>76.8%</u>	<u>50.3%</u>
<b>Total</b>		<b>625*</b>	<b>100.0%</b>	<b>\$70,349</b>	<b>100.0%</b>	<b>100.0%</b>

\*Applicant income was not available for 21 originations totaling approximately \$2.9 million

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within this assessment area. However, Heritage’s ability to originate mortgage loans to low-income borrowers may be influenced by family poverty levels. The examiner noted that according to the 2000 Census, approximately 68.0 percent of the low-income families residing within this assessment area have incomes below the poverty level (10.2 percent of all families living within this assessment area have incomes below the poverty level). The Institution’s level of mortgage lending to moderate-income borrowers was also lower than the percentage of moderate-income families residing within this assessment area.

Heritage’s overall record of lending to borrowers of different income levels was also compared to the lending activity of other lenders subject to the CRA that maintained offices within this assessment area, focusing upon LMI borrowers. In accordance with the HMDA, creditors with total assets greater than \$250 million and a branch office located within an MSA, must submit certain information regarding mortgage loans for purchase, refinance, and home improvement purposes for all property locations. This information was derived from the 2008 and 2009 HMDA Aggregate information, the latest available.

***Institution (continued)***

Based upon the data shown below, Heritage’s overall record of lending to LMI borrowers was lower than that of other lenders within this assessment area. Both groups were lower than this assessment area’s demographics.

***2008 and 2009 Aggregate HMDA Borrower Income Analysis for Mortgage Loan Originations of similar products by other lenders within the Kentucky Assessment Area***

<b>Income Category</b>	<b>Percent Of MFI</b>	<b>Heritage Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution of Families</b>
<b>Low</b>	<50%	2.6%	3.9%	15.0%
<b>Moderate</b>	≥50-<80%	11.6%	12.6%	14.5%

Geographic Distribution of Loans

As previously discussed, the assessment area is composed solely of middle- and upper-income CTs. Therefore, no analysis was performed with respect to the geographic distribution of Heritage’s mortgage loan originations since the results would not have been meaningful.

***Community Development Test***

Community Development Lending

Since the preceding evaluation, Heritage originated a loan that qualifies as a community development loan and was secured by property located in this assessment area as follows:

One loan to an individual for \$900,000. The loan proceeds were for the refinancing from another institution of a multi-family building with 22 units in Eddyville, Kentucky. Although the property is located within a middle-income CT, the unit rental rates are within a range which would be attractive to LMI families.

Community Development Investments

During the review period, Heritage made a moderate level of charitable contributions within this assessment area, although only a small percentage of these contributions met the definition of community development investments. Given the nature of the available information, the examiner was not able to determine which organizations that addressed these needs were located within this assessment area.

***Institution (continued)***

Community Development Services

Heritage offers a level of banking services within this assessment area that are consistent with those described in the “Main” Community Development Service discussion.

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***Institution (continued)***

***State***

***Summary***

CRA Rating for Tennessee

**CRA RATING<sup>b</sup>:**

**The Lending Test is rated:**

**The Community Development Test is rated:**

**Satisfactory**

**Outstanding**

**Satisfactory**

An analysis of Heritage's mortgage lending for this assessment area indicated that 92, or 6.5 percent, of the originated HMDA reportable mortgage loans for this review period were secured by properties located within this assessment area. The distribution of mortgage loans among low-income borrowers was lower than this area's demographics, but commensurate with that of other lenders subject to the CRA for 2008 and 2009, the latest years for which information relative to other lenders was available. Heritage's distribution of mortgage loans among moderate-income borrowers was somewhat higher than this area's demographics, as well as that of other lenders subject to the CRA for 2008 and 2009.

An analysis of Heritage's mortgage lending for this state indicated that the distribution of mortgage loans within moderate-income geographies was strong compared with this area's demographics, as well as that of other lenders subject to the CRA for 2008 and 2009, the latest years for which information relative to other lenders was available.

In addition, Heritage's level of community development lending, investments, and services within this assessment area was strong during the review period given its resources.

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<sup>b</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation is adjusted and does not reflect performance in the parts of those states contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

## ***Institution (continued)***

### **Scope of Examination**

A review of Heritage's CRA performance within this assessment area was conducted for the period beginning January 1, 2008, and ending December 31, 2010. Since such a low percentage of the Institution's overall lending was within this state, separate reviews of lending within the Nashville MSA and within non-metropolitan Tennessee will not be performed. Instead the lending within this state will be reviewed as a whole. Community development activities were also included in this review.

### **Description of Institution's Operations in Tennessee**

Heritage operates a total of four offices in Tennessee, three in Cheatham County, Tennessee (Ashland City, Kingston Springs, and Pleasant View) and one in Houston County (Erin). One branch is located in a moderate-income CT (Ashland City), and three are located in middle-income CTs.

### **Description of Tennessee Assessment Area**

Heritage's Tennessee assessment area comprises all of Cheatham and Houston Counties. This assessment area included eight CTs with income designations, no low-income, one moderate-income, seven middle-income, and no upper-income CTs as of the 2000 Census. Cheatham County is located within the Nashville MSA and Houston County is not located in an MSA.

The 2000 Census data will be used to evaluate the Institution's lending to borrowers of different incomes and geographic distribution for the Institution's 2008, 2009, and 2010 mortgage lending activity.

***Institution (continued)***

A summary of certain geographic characteristics for the assessment area based upon 2000 Census data is as follows:

DEMOGRAPHICS OF CTs			FAMILY DISTRIBUTION	
CT Category	Population	Owner-Occupied Housing Units	Income Category	Distribution of Families
Low	-0-	0.0%	Low	17.4%
Moderate	3,450	6.0%	Moderate	22.0%
Middle	40,550	94.0%	Middle	27.9%
Upper	<u>-0-</u>	<u>0.0%</u>	Upper	<u>32.7%</u>
<b>Total</b>	44,000	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>

The examiner’s review of 2000 Census data disclosed the following additional information about this assessment area:

Total Population	44,000
Population 16 and older	33,341 (75.8%)
Population Over 65	4,435 (10.1%)
Total Housing Units	17,409
Owner-Occupied Housing Units	13,241 (76.1)
Rental Occupied Units	2,853 (16.4%)
1 - 4 Family Units	13,671 (78.5%)
Multi-Family Units	319 (1.8%)
Total Families	12,553
Families Below the Poverty Level	872 (6.9%)

In addition, the Institution encounters substantial competition from many other financial institutions within this assessment area. Specifically, as of June 30, 2010, the latest information available, a total of six commercial banks and one savings association, Heritage, maintained a total of 14 offices within this assessment area. This included several institutions that are multi-state, regional, national, or larger institutions with several branches outside of the assessment area such as Bank of America, N.A., U.S. Bank N.A., and Regions Bank. As of June 30, 2010, all institutions held approximately \$517.1 million in deposits within this assessment area. Heritage held approximately 14.4 percent of this assessment area’s total deposits.

***Institution (continued)***

**Conclusions with Respect to Performance Tests in Tennessee**

Lending to Borrowers of Different Income Levels

In order to evaluate Heritage’s record of lending to borrowers of different income levels for 2008, 2009, and 2010, family income levels were stratified as a percentage of the updated MFI for non-metropolitan Tennessee and the Nashville MSA. The updated MFI figures, as provided by the Department of Housing and Urban Development, for non-metropolitan Tennessee and the Nashville MSA for 2008, 2009, and 2010 were \$44,400, \$46,300, and \$46,400, respectively, and \$63,200, \$64,900, and \$65,200, respectively.

From information contained in the Institution’s records, the examiner compiled the following borrower income distribution statistics:

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Volume (\$000s)</b>	<b>Pct of \$</b>	<b>Distribution Of Families</b>
<b>Low</b>	<50%	11	12.5%	504	6.0%	17.4%
<b>Moderate</b>	≥50-<80%	26	29.5%	1,993	23.7%	22.0%
<b>Middle</b>	≥80-<120%	21	23.9%	2,359	28.0%	27.9%
<b>Upper</b>	≥120%	<u>30</u>	<u>34.1%</u>	<u>3,566</u>	<u>42.3%</u>	<u>32.7%</u>
<b>Total</b>		<b>88*</b>	<b>100.0%</b>	<b>\$8,422</b>	<b>100.0%</b>	<b>100.0%</b>

\*Applicant income was not available for four originations totaling \$523,000.

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within this assessment area. However, Heritage’s ability to originate mortgage loans to low-income borrowers may be influenced by family poverty levels. The examiner noted that according to the 2000 Census, approximately 39.9 percent of the low-income families residing within this assessment area have incomes below the poverty level (6.9 percent of all families living within this assessment area have incomes below the poverty level). However, the Institution’s level of mortgage lending to moderate-income borrowers was higher than the percentage of moderate-income families residing within this assessment area.

Heritage’s overall record of lending to borrowers of different income levels was also compared to the lending activity of other lenders subject to the CRA that maintained offices within this assessment area, focusing upon LMI borrowers. In accordance with the HMDA, creditors with total assets greater than \$250 million and a branch office located within an MSA, must submit certain information regarding mortgage loans for purchase, refinance, and home improvement purposes for

***Institution (continued)***

all property locations. This information was derived from the 2008 and 2009 HMDA Aggregate information, the latest available.

Based upon the data shown below, Heritage’s overall record of lending to LMI borrowers was higher than that of other lenders within this assessment area, as well as this assessment area’s demographics, although this involved only 49 loans originated in 2008 and 2009 with reported incomes.

***2008 and 2009 Aggregate HMDA Borrower Income Analysis for Mortgage Loan Originations of similar products by other lenders within the Tennessee Assessment Area***

<b>Income Category</b>	<b>Percent Of MFI</b>	<b>Heritage Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution of Families</b>
<b>Low</b>	<50%	8.2%	9.8%	17.4%
<b>Moderate</b>	≥50-<80%	32.6%	25.5%	22.0%

Geographic Distribution of Loans

The examiner also performed a review to determine the adequacy of dispersion of lending with regard to lending within the LMI areas of this assessment area for 2008, 2009, and 2010. Specifically, the examiner analyzed the percentage of residential mortgage loans, by number and dollar amount of the mortgage loans originated by Heritage within the LMI CTs compared to the percentage of OOHUs located within those areas.

The analysis disclosed the following information concerning the Institution’s record of residential mortgage lending throughout the different CTs within this assessment area for 2008, 2009, and 2010. The percentage of OOHUs is derived from the 2000 Census:

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Volume (\$000s)</b>	<b>Pct of \$</b>	<b>Distribution of OOHUs</b>
<b>Moderate</b>	≥50-<80%	4	4.4%	303	3.4%	6.0%
<b>Middle</b>	≥80-<120%	88	95.6%	8,642	96.6%	94.0%
<b>Total</b>		92	100.0%	\$8,945	100.0%	100.0%

As indicated above, the Institution’s overall record of lending in the moderate-income areas was somewhat lower than this assessment area’s demographics on a number basis, as well as on a dollar volume basis.

***Institution (continued)***

Heritage’s overall record of lending within different geographic areas was also compared to the lending activity of other lenders subject to the CRA that maintained offices within this assessment area. This information was derived from the 2008 and 2009 HMDA Aggregate information, the latest available. In order to provide a more accurate comparison, the lending activity was compiled for all types of mortgage loans for single-family dwellings originated by lenders subject to the CRA, focusing upon mortgage lending in the LMI CTs.

Based upon this data, Heritage’s level of lending within the moderate-income geographies was higher than that of other lenders, and commensurate with the assessment area’s demographics as indicated below:

***2008 and 2009 Aggregate HMDA Geographic Distribution Analysis for Mortgage Loan Originations of similar products by other lenders within the Tennessee Assessment Area***

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Heritage Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution of O.O.H.U.</b>
<b>Moderate</b>	$\geq 50$ -<80%	5.9%	5.3%	6.0%

***Community Development Test***

Community Development Lending

During the review period, Heritage did not originate any loans that qualify as community development loans that were secured by properties located within this assessment area.

Community Development Investments

During the review period, Heritage made a moderate level of charitable contributions within this assessment area, although only a small percentage of these contributions met the definition of community development investments. Given the nature of the available information, the examiner was not able to determine which organizations that addressed these needs were located within this assessment area.

Community Development Services

Heritage offers a level of banking services within this assessment area that are consistent with those described in the “Main” Community Development Service discussion.

### **Multistate Metropolitan Area**

*(Complete for each multistate metropolitan area where an institution has branches in two or more states within the multistate metropolitan area)*

CRA Rating for Clarksville, TN/Hopkinsville, KY MSA

<b>CRA RATING<sup>c</sup>:</b>	<b>Outstanding</b>
<b>The Lending Test is rated:</b>	<b>Outstanding</b>
<b>The Community Development Test is rated:</b>	<b>Outstanding</b>

An analysis of Heritage's mortgage lending for this assessment area indicated that the distribution of mortgage loans among low-income borrowers was lower than this assessment area's demographics, but higher than that of other lenders subject to the CRA for 2008 and 2009, the latest years for which information relative to other lenders was available. Heritage's distribution of mortgage loans among moderate-income borrowers was somewhat lower than this area's demographics, as well as that of other lenders subject to the CRA for 2008 and 2009.

An analysis of Heritage's mortgage lending for this assessment area indicated that the distribution of mortgage loans within moderate-income geographies was strong compared with this assessment area's demographics, as well as that of other lenders subject to the CRA for 2008 and 2009, the latest years for which information relative to other lenders was available.

In addition, Heritage's level of community development lending, investments, and services within this assessment area was strong during the review period given its resources.

### **Scope of Examination**

A review of Heritage's CRA performance within this assessment area was conducted for the period beginning January 1, 2008, and ending December 31, 2010. Lending and community development activities were also included in this review.

<sup>c</sup> This rating reflects performance within the multistate metropolitan area. The statewide evaluations are adjusted and do not reflect performance in the parts of those states contained within the multistate metropolitan area.

**Description of Institution's Operations in Clarksville, TN/  
Hopkinsville, KY MSA**

Heritage operates a total of seven offices within this assessment area, three in Christian and one in Trigg Counties, Kentucky (Hopkinsville and Cadiz) and three in Montgomery County, Tennessee (Clarksville). Three branches are located in moderate-income CTs, two in middle-income CTs, and two are located in upper-income CTs.

**Description of Clarksville, TN/Hopkinsville, KY  
Assessment Area**

Heritage's MSA assessment area comprises all of Christian and Trigg Counties, Kentucky and Montgomery County, Tennessee. This assessment area included 45 CTs with income designations, no low-income, eleven moderate-income, 25 middle-income, and nine upper-income tracts as of the 2000 Census.

The 2000 Census data will be used to evaluate the Institution's lending to borrowers of different incomes and geographic distribution for the Institution's 2008, 2009, and 2010 mortgage lending activity.

A summary of certain geographic characteristics for this assessment area based upon 2000 Census data is as follows:

DEMOGRAPHICS OF CTs			FAMILY DISTRIBUTION	
CT Category	Population	Owner-Occupied Housing Units	Income Category	Distribution of Families
Low	-0-	0.0%	Low	17.5%
Moderate	44,638	9.6%	Moderate	19.9%
Middle	129,329	63.0%	Middle	23.8%
Upper	<u>45,663</u>	<u>27.4%</u>	Upper	<u>38.8%</u>
<b>Total</b>	219,630	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>

The examiner's review of 2000 Census data disclosed the following additional information about this assessment area:

Total Population	219,630
Population 16 and older	163,707 (74.5%)
Population Over 65	19,642 (8.9%)
Total Housing Units	86,047
Owner-Occupied Housing Units	48,668 (56.5)
Rental Occupied Units	29,734 (34.6%)
1 - 4 Family Units	69,870 (81.2%)
Multi-Family Units	8,014 (9.3%)
Total Families	58,537
Families Below the Poverty Level	5,418 (9.3%)

In addition, the Institution encounters substantial competition from many other financial institutions within this assessment area. Specifically, as of June 30, 2010, the latest information available, a total of 13 commercial banks and two savings associations, including Heritage, maintained a total of 82 offices within this assessment area. This included several institutions that are multi-state, regional, national, or larger institutions with several branches outside of the combined assessment area such as Bank of America, N.A., Regions Bank, Branch Banking & Trust Company, and U.S. Bank, N.A. As of June 30, 2010, all institutions held approximately \$3.0 billion in deposits within this assessment area. Heritage held approximately 11.9 percent of this assessment area's total deposits.

#### Conclusions with Respect to Performance Tests in Clarksville, TN/Hopkinsville, KY MSA

##### Lending to Borrowers of Different Income Levels

In order to evaluate Heritage's record of lending to borrowers of different income levels for 2008, 2009, and 2010, family income levels were stratified as a percentage of the updated MFI for the Clarksville/Hopkinsville MSA. The updated MFI figures, as provided by the Department of Housing and Urban Development, for the Clarksville/Hopkinsville MSA for 2008, 2009, and 2010 were \$51,300, \$52,900, and \$52,500, respectively.

From information contained in the Institution’s records, the examiner compiled the following borrower income distribution statistics:

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Volume (\$000s)</b>	<b>Pct of \$</b>	<b>Distribution Of Families</b>
<b>Low</b>	<50%	44	7.7%	2,451	4.4%	17.5%
<b>Moderate</b>	≥50-<80%	87	15.3%	6,588	11.7%	19.9%
<b>Middle</b>	≥80-<120%	122	21.4%	10,525	18.7%	23.8%
<b>Upper</b>	≥120%	<u>316</u>	<u>55.6%</u>	<u>36,628</u>	<u>65.2%</u>	<u>38.8%</u>
<b>Total</b>		<b>569*</b>	<b>100.0%</b>	<b>\$56,192</b>	<b>100.0%</b>	<b>100.0%</b>

\*Applicant income was not available for 102 originations totaling approximately \$16.4 million

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within this assessment area. However, Heritage’s ability to originate mortgage loans to low-income borrowers may be influenced by family poverty levels. The examiner noted that according to the 2000 Census, approximately 53.0 percent of the low-income families residing within this assessment area have incomes below the poverty level (9.3 percent of all families living within this assessment area have incomes below the poverty level). The Institution’s level of mortgage lending to moderate-income borrowers was also lower than the percentage of moderate-income families residing within this assessment area.

Heritage’s overall record of lending to borrowers of different income levels was also compared to the lending activity of other lenders subject to the CRA that maintained offices within this assessment area, focusing upon LMI borrowers. In accordance with the HMDA, creditors with total assets greater than \$250 million and a branch office located within an MSA, must submit certain information regarding mortgage loans for purchase, refinance, and home improvement purposes for all property locations. This information was derived from the 2008 and 2009 HMDA Aggregate information, the latest available.

Based upon the data shown below, Heritage’s overall record of lending to LMI borrowers was much higher than that of other lenders within this assessment area. Both groups were lower than this assessment area’s demographics.

**2008 and 2009 Aggregate HMDA Borrower Income Analysis for Mortgage Loan Originations of similar products by other lenders within the MSA Assessment Area**

<b>Income Category</b>	<b>Percent Of MFI</b>	<b>Heritage Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution of Families</b>
<b>Low</b>	<50%	7.9%	4.7%	17.5%
<b>Moderate</b>	≥50-<80%	15.9%	20.4%	19.9%

Geographic Distribution of Loans

The examiner also performed a review to determine the adequacy of dispersion of lending with regard to lending within the LMI areas of this assessment area for 2008, 2009, and 2010. Specifically, the examiner analyzed the percentage of residential mortgage loans, by number and dollar amount of the mortgage loans originated by Heritage within the LMI CTs compared to the percentage of OOHUs located within those areas.

The analysis disclosed the following information concerning the Institution’s record of residential mortgage lending throughout the different CTs within this assessment area for 2008, 2009, and 2010. The percentage of OOHUs is derived from the 2000 Census:

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Volume (\$000s)</b>	<b>Pct of \$</b>	<b>Distribution of OOHUs</b>
<b>Moderate</b>	≥50-<80%	99	14.7%	5,831	8.0%	9.6%
<b>Middle</b>	≥80-<120%	393	58.6%	42,064	58.0%	63.0%
<b>Upper</b>	≥120%	<u>179</u>	<u>26.7%</u>	<u>24,659</u>	<u>34.0%</u>	<u>27.4%</u>
<b>Total</b>		<b>671</b>	<b>100.0%</b>	<b>\$72,554</b>	<b>100.0%</b>	<b>100.0%</b>

As indicated above, the Institution’s overall record of lending in the moderate-income areas was higher than this assessment area’s demographics on a number basis, but not on a dollar volume basis.

Heritage’s overall record of lending within different geographic areas was also compared to the lending activity of other lenders subject to the CRA that maintained offices within this assessment area. This information was derived from the 2008 and 2009 HMDA Aggregate information, the latest available. In order to provide a more accurate comparison, the lending activity was compiled for all types of mortgage loans for single-family dwellings originated by lenders subject to the CRA, focusing upon mortgage lending in the LMI CTs.

Based upon this data, Heritage’s level of lending within the moderate-income geographies was higher than that of other lenders, as well as this assessment area’s demographics as indicated below:

**2008 and 2009 Aggregate HMDA Geographic Distribution Analysis for Mortgage Loan Originations of similar products by other lenders within the MSA Assessment Area**

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Heritage Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution of O.O.H.U.</b>
<b>Moderate</b>	≥50-<80%	16.0%	5.5%	9.6%

### **Community Development Test**

#### **Community Development Lending**

Since the preceding evaluation, Heritage originated several loans that qualify as community development loans that were secured by properties located within this assessment area. These loans are as follows:

Clarksville, Tennessee, one loan for \$1,088,300. The loan proceeds were for the acquisition of a multi-family building with 23 units in Clarksville. Although the property is located within an upper-income CT, the unit rental rates are within a range which would be attractive to LMI families.

One loan to an individual for \$493,000. The loan proceeds were for the refinancing from another institution of a multi-family building with 22 units in Clarksville. Although the property is located within a middle-income CT, the unit rental rates are within a range which would be attractive to LMI families.

Madison, Tennessee, one loan for \$3,200,000. The loan proceeds were for the purchase and renovation of a multi-family building with 250 units in Madison. The property is located in a moderate-income CT.

Six loans to an individual totaling \$2,733,226. The loan proceeds were for the refinancing of a multi-family building with 16 units in Clarksville. Although the property is located within a middle-income CT, the unit rental rates are within a range which would be attractive to LMI families and the units are located north of Clarksville near Fort Campbell.

#### **Community Development Investments**

During the review period, Heritage made a moderate level of charitable contributions within this assessment area, although only a small percentage of these contributions met the definition of community development investments. Given the nature of the available information, the examiner was not able to determine which organizations that addressed these needs were located within this assessment area.

#### **Community Development Services**

Heritage offers a level of banking services within this assessment area that are consistent with those described in the “Main” Community Development Services discussion.

**Appendix A**

**Scope of Examination**

SCOPE OF EXAMINATION		
Full Scope		
<b>TIME PERIOD REVIEWED:</b>	January 1, 2008, through December 31, 2010	
<b>FINANCIAL INSTITUTION</b>		<b>PRODUCTS REVIEWED</b>
Heritage Bank		HMDA reportable loans
<b>AFFILIATE(S)</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>
None		

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED <sup>1</sup>	OTHER INFORMATION
Clarksville, TN MSA – TN/KY	Full Scope	One	None
Combined Tennessee	Full Scope	None	None
Non-Metropolitan Kentucky	Full Scope	None	None

<sup>1</sup> There is a statutory requirement that the written evaluation of a multistate institution’s performance must list the individual branches examined in each state.

**Appendix B**

Summary of State and Multistate Metropolitan Area Ratings

State or Multistate Metropolitan Area Name	Lending Test Rating	Community Development Test Rating	Overall State Rating
Clarksville, TN MSA TN/KY	Outstanding	Outstanding	Outstanding
State of Kentucky	Outstanding	Outstanding	Outstanding
State of Tennessee	Outstanding	Satisfactory	Satisfactory

## **CRA Rating Definitions**

There are five separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the intermediate small institution test for intermediate small savings associations; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, service, and community development opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.