



Office of the  
Comptroller of the Currency  
Washington, DC 20219

**SMALL BANK**

## **PUBLIC DISCLOSURE**

July 03, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Heartland National Bank  
Charter Number 23773

320 U.S. Highway 27 North  
Sebring, FL 33870

Office of the Comptroller of the Currency

4042 Park Oaks Blvd  
Suite 240  
Tampa, FL 33610

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

- Heartland National Bank's average loan-to-deposit ratio is reasonable compared to its peer group averages.
- A majority of business and residential real estate lending occurs in the assessment area.
- The bank's lending activities shows reasonable penetration among businesses of different sizes and to borrowers of different incomes.
- The geographic distribution of lending in the assessment area is reasonable.

**SCOPE OF EXAMINATION**

Our conclusion is based on an analysis of the bank's lending activities from January 1, 2012 to March 31, 2014. We focused on residential and business lending as the bank's primary lending products. For the first quarter 2014, residential real estate and business loan originations represented 48 percent and 33 percent of loan originations, respectively. In the year 2013, residential real estate and business loan originations represented 38 percent and 37 percent of loan originations, respectively. For the year 2012, residential real estate and business loan originations represented 48 percent and 32 percent of loan originations, respectively. Since the bank is not a HMDA reporter, we based our conclusions on random judgmental samples of sixty-two residential real estate (RRE) loans and seventy-six business loans that originated during the review period state above. For purposes of CRA evaluations, individuals are categorized as low-, moderate-, middle-, or upper-income, based on their respective income levels as a percentage of the U.S. Department of Housing and Urban Development's (HUD) estimated Median Family Income (MFI) of the applicable geography. As provided by the Federal Financial Institutions Examination Council (FFIEC), the 2014 estimated MSA/MD median family income (MFI) for the non-metropolitan portion of Florida (\$46,500) is used to determine income level classifications of borrowers as follows: Low-income (less than 50 percent of MFI) ranges from zero to \$23,499, Moderate-income (50 percent to less than 80 percent) ranges from \$23,250 to \$37,199, Middle-income (80 percent to less than 120 percent) ranges from \$37,200 to \$55,799 and Upper- income (120 percent and above) equal to or greater than \$55,800.

The bank received a "Satisfactory" rating on its performance evaluation dated December 12, 2007 for meeting the credit needs of the community.

**DESCRIPTION OF INSTITUTION**

Heartland National Bank (HNB) began operation on September 7, 1999 as a wholly-owned subsidiary of Heartland Bancshares, Inc., which is a one-bank holding company.is headquartered in Sebring, Florida. HNB has four offices located in

Highlands County. There are ATMs at each respective location. In November 2007, HNB relocated their Avon Park branch from its former location on U.S. Highway 27 North, and reopened it in downtown Avon Park. They also opened a new location in northern Sebring in April 2005.

As of March 31, 2014, HNB had total assets of \$298 million. And, net loans of \$148 million represent 50% of total assets. HNB offers a variety of loan products, but, its primary lending products are business loans and residential real estate (RRE) mortgages. A substantial majority of RRE loan originations are sold in the secondary market. In 2012, 2013 and year-to-date 2014, the volume of RR loans originations sold in the secondary market was, 85 percent, 81 percent and 91 percent, respectively. The bank's 2013 three-year strategic plan is focused on maintaining market share by diligently serving the banking needs of its market with current loan and deposit product lines. The bank has operated under a Formal Agreement since March 23, 2011, which related to credit risk. Consequently, during this period, the bank has focused on reducing credit risk, but has still been able to generate loan growth and maintain profitability over this evaluation period.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

Highlands County represents the bank's entire assessment area (AA) for this review. The county consists of 27 census tracts (CTs). The AA does not contain any low-income CTs. There are six moderate-income tracts, sixteen middle-income tracts, two upper-income CTs and three unspecified CTs. For the year 2012, all eighteen of the middle-income CTs were designated by the Federal Financial Institutions Examination Council (FFIEC) as distressed for poverty. As defined by the FFIEC, a nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) An unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of five percent or more over the five-year period preceding the most recent census.

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography. And, the bank's size and office locations support the designated AA. Highlands County is located in the center of Florida, approximately 45 miles south of Orlando and is not part of a metropolitan statistical area (MSA). Highlands County was created in 1921 along with Charlotte, Glades and Hardee counties when they were separated from Desoto County. Highlands County was named for its terrain. The city of Sebring is the county seat of Highlands and location of the bank's main office. Sebring is most notable for the Sebring International Raceway, which hosts the 12 Hours of Sebring auto racing. According Enterprise Florida, the top six number of business establishments are Trade/Transportation/Utilities (490), Professional & Business Services (302), Education & Health Services (293), Construction (234), Natural Resources & Mining (218) and Leisure and Hospitality Services (205). According a 2014 publication by the Highlands County Industrial

Development Authority Economic Development Commission, the county has a total population of 99,092 for 2013 with a median age is 51.5 years. Six colleges/universities serve the area. And, the 10 largest major private sector employers, from largest to lowest employer, are Florida Hospital (healthcare), Wal-Mart (department store), Agero (roadside assistance), Highlands Regional Medical Center (healthcare), Delray Plants (ornamental plants), Palms of Sebring (assisted living), Alan Jay Auto Network (auto motive dealership), Lake Placid Healthcare (assisted living), Positive Medical Transport (healthcare/transportation) and E-Store USA Corporation (manufacturing). 2010 US Census data also reports the county contains 42,604 total households, 28,027 family households, 42,604 owner-occupied housing units, 32,830 renter-occupied housing units and 12,782 vacant housing units. Family income is based on the Department of Housing and Urban Development 2014 estimate of median family income of \$46,500 for nonmetropolitan areas in the State of Florida.

According to Federal Deposit Insurance Corporation's most recent Deposit Market Share Report (dated June 30, 2013), the bank's major competition comes from seven institutions. In addition to HNB, the AA has five large national-market banks, one regional-market bank and a community-market bank operating twenty-six offices with approximately \$1.5 billion in deposits. HNB ranks number one among the group with a deposit market share of 18.7 percent. The second deposit market shareholder is Highlands Independent Bank (16.01 percent) followed by Wells Fargo (14.67 percent), Bank of America (14.33 percent), Sun Trust Bank (13.97 percent) and Wauchula State Bank (13.91 percent). The other two banks each hold less than 7 percent deposit share.

As a requirement for CRA evaluations, examiners personally contact community representatives or use recent community contact information from interagency community contact databases to gain insight regarding the credit needs and economic conditions of an assessment area. For the bank's contact information, we relied on data obtained in a contact meeting held on April 8, 2014 between the Federal Deposit Insurance Corporation and a director of a local nonprofit organization. The director of the local nonprofit organization stated that because the local small banks are very prudent at lending, small business start-up companies have a difficult time finding financing. The contact also stated that when there is local government support, the financial institutions' willingness to lend increases. The contact recommended that banks assist more in mortgage lending for low and moderate-income households, small business lending, and community events for all demographics.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

- Loan-to-Deposit Ratio - Meets the Standard for Satisfactory Performance

HNB's average loan-to-deposit (LTD) ratio of 68.39 percent is reasonable compared to the average ratio of 67.88 percent for similarly situated banks. Similarly situated banks are five banks (2 in Highlands County, 3 in Charlotte County and 1 in Polk County) in or

near the assessment area with total assets ranging from \$191 million to \$350 million, as of February 18, 2014. The average LTD ratio for the bank and similarly situated banks was calculated and averaged using the deposit ratios for each quarter since the last CRA exam in December 12, 2007. The similarly situated banks have average LTD ratios that range from 57.12 percent to 74.62 percent.

### **Lending in Assessment Area**

- **Lending in Assessment Area - Meets the Standard for Satisfactory Performance**

*A majority of business and residential real estate lending occurs in the assessment area.* This conclusion is based on an analysis of residential mortgages and business loans originated during the period from January 1, 2012 to March 31, 2014. From these loan originations, we selected a judgmental random sample of 62 RRE and 76 business loan originations.

As illustrated in the following Table-1; 87 percent by number and 89 percent by dollar amount of total RRE and business loan originations made during our evaluation period were within the bank's AA.

**Table 1 - Lending in Highlands County**

Loan Type	Number of Loans				Dollars of Loans (000)				Total		
	Inside		Outside		Total	Inside		Outside			
	#	%	#	%		\$	%	\$			
Home Purchase	48	77.42%	0	0%	48	4,604	68.92%	0	0%	4,604	
Refinance	12	19.35%	2	3.23%	14	1,734	25.96%	342	5.12%	2,076	
Business	60	79%	16	21%	76	14,985	87.18%	2,204	12.82%	17,189	
<b>Totals</b>	<b>120</b>	<b>87%</b>	<b>18</b>	<b>13%</b>	<b>138</b>	<b>21,323</b>	<b>89%</b>	<b>2,546</b>	<b>11%</b>	<b>23,869</b>	

Source: OCC judgmental random sample of loan originations from January 1, 2012 to March 31, 2014.

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

- **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes - Meets the Standard for Satisfactory Performance**

*The bank's lending activities show reasonable penetration among businesses of different sizes and to borrowers of different incomes.* Our conclusion is based on the same sample of sixty business and sixty RRE loans made in the AA as discussed in the *Lending in Assessment Area* section. And, RRE income levels are based on income ranges discussed in the *Scope of Examination* section. In regards to RRE lending, Table-2 shows the percentage of bank loans to low and moderate income borrowers are lower than the percentage of AA Families for home purchase and refinance loans. However, the percentage of the bank's home purchase and refinance loan originations is well below the percent of AA low and moderate families. The total percent of the number of loans is at the midpoint of the percent of AA low-income families, which is

reasonable. While the total percent of the number of loans to the percent of AA moderate-income families is much lower. According to management, the bank solicits RRE loans in all areas of the AA and income levels through advertising, office network and realtor referrals. However, the bank sells a substantial majority of RRE loans in the secondary market. And, the qualifications for approval set by the secondary market could impact the volume of lending to low and moderate-income families. Furthermore, based on income and housing cost in the AA the level of income required for housing purchases could be beyond the means of low and moderate income residents in the AA. Given the distressed local real estate market conditions coupled with a poverty level of 13.53% and secondary market approval qualifications, RRE lending to low and moderate-income families is reasonable.

In regards to business lending, the bank exceeds the standard. Table-2A illustrates the percentage of the number of loans to small businesses is well above the percentage of small businesses in the AA. The percentage of small business loans by dollar amount is well below the percentage of small businesses in the AA. However, Table 2B shows the majority of the loans to business are small dollar amounts, which supports exceptional small business lending.

**Table 2 - Borrower Distribution of Residential Real Estate Loans in Highlands County**

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.07	8.33%	23.79	8.34%	23.57	13.33%	33.57	50%
Refinance	19.07	1.67%	23.79	0%	23.57	0%	33.57	18.33%
Total	19.07	<b>10%</b>	23.79	<b>8.34%</b>	23.57	<b>13.33%</b>	33.57	<b>68.33%</b>

Source: OCC Judgmental Random loan sample and U.S. Census data.

**Table 2A - Borrower Distribution of Loans to Businesses in Highlands County**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64.48	1.12	33.12	100%
% of Bank Loans in AA by #	<b>73.33%</b>	26.67%	0%	100%
% of Bank Loans in AA by \$	52.87%	47.13%	0%	100%

Source: OCC Judgmental Random Loan sample and Dunn & Bradstreet data.

**Table 2B - Borrower Distribution of Loans to Businesses by Loan Size in Highlands County**

Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans (000)	Percent of Dollar Volume
\$0 - \$100,000	33	<b>55%</b>	1,675	<b>11%</b>
\$100,001 - \$250,000	15	<b>25%</b>	2,432	<b>16%</b>
\$250,001 - \$500,000	5	8.33%	2,202	15%
\$500,001 - \$1,000,000	5	8.33%	3,171	21%
Over \$1,000,000	2	3.34%	5,505	37%

Source: OCC Judgmental Random Loan sample.

## Geographic Distribution of Loans

- **Geographic Distribution of Loans - Meets the Standard for Satisfactory Performance**

*The geographic distribution of lending is reasonable.* Our analysis is based on same source of data in the previous tables. The analysis of business loans is based on the sample of sixty RRE and sixty business loan originations within the AA. For this analysis, we focus on lending moderate-income CTs with additional weight given to RRE lending in distressed middle-income CTs. RRE lending is compared to the percent of AA Owner Occupied Housing in each census tract group by income level. And, business lending is compared to the percent of AA businesses in each census tract group by income level. In regards to RRE lending, Table 3 illustrates the percentage of home purchase and refinance loan originations are much lower than the percentage of AA owner occupied housing in the moderate-income census tract. However, 52.17 percent of the 2012 RRE loans originated in middle-income CTs designated by the FFIEC as distressed due to high poverty levels in 2012. As stated in the prior segment, the distressed local real estate market and higher unemployment adversely impacted residential loan demand. Given the impact of the distressed local economy and level of lending in moderate and distressed middle-income CTs, the bank's overall dispersion of RRE lending is reasonable.

Geographic dispersion of business loan originations is excellent. Without consideration of distressed middle-income tracts, the dispersion of business originations is excellent. As shown in Table 3A, the percentage of bank business originations in the moderate-income census tracts is well above the percentage of businesses in the AA. In 2012, the bank originated 62 percent of business loans in distressed middle-income tracts.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Highlands County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0%	19.76	<b>3.33%</b>	72.50	<b>65%</b>	7.74	11.67%
Refinance	0.00	0%	19.76	<b>3.33%</b>	72.50	<b>11.67%</b>	7.74	5%
<b>Total</b>	<b>0.00</b>	<b>0%</b>	<b>19.76</b>	<b>6.66%</b>	<b>72.50</b>	<b>76.67%</b>	<b>7.74</b>	<b>16.67%</b>

Source: OCC Judgmental Random loan sample and U.S. Census data.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Highlands County</b>								
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
Businesses	0.00	0%	20.61	<b>25%</b>	69.82	68.33%	9.23	6.67%

Source: OCC Judgmental Random loan sample and Dunn & Bradstreet data.

## Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (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.