



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage Bank, National Association
Charter Number 18269**

**101 North Main Street
Holstein, Iowa 51025**

**Comptroller of the Currency
Omaha North Field Office
13710 FNB Parkway, Suite 110
Omaha, Nebraska 68154**

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

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Heritage Bank, National Association (Heritage Bank) adequately meets the credit needs of its assessment areas. The bank's primary lending activities are agricultural, commercial, consumer, and residential real estate loans.

- Heritage Bank meets the credit needs of its assessment areas.
- A substantial majority of the bank's loans are within the assessment areas.
- The bank's lending efforts result in excellent penetration of borrowers of different income levels and satisfactory penetration of farms and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.

DESCRIPTION OF INSTITUTION

Heritage Bank is a \$120 million bank headquartered in Holstein, Iowa. The bank also has branches in Aurelia, Lytton, Alta, Anthon, Cushing, and Sioux City, Iowa. The bank is owned by Heritage Bancshares Group, Inc., a two-bank holding company with an affiliate bank located in Willmar, Minnesota. The \$218 million holding company is headquartered in Minneapolis, Minnesota. Drive-up facilities are available in Holstein, Aurelia, Alta, Anthon, and Sioux City. The bank provides a depository automated teller machine (ATM) at its Holstein location and a non-depository ATM at a convenience store in Correctionville, Iowa. There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

As of September 30, 2001, Heritage Bank's loan portfolio comprised of 80% of total assets. The bank's primary credit products are agriculture, commercial, residential real estate, and consumer loans. The table below breaks down the portfolio by outstanding dollars and number of loans.

	% of originated dollars	% of originated # of loans
Agricultural/RE Loans	63%	45%
Commercial/RE Loans	20%	16%
Residential RE Loans	11%	12%
Consumer Loans	4%	25%
Other Loans	2%	2%

Heritage Bank was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination dated April 23, 1997.

DESCRIPTION OF ASSESSMENT AREA

Heritage Bank has two assessment areas (AAs). The first, or "rural," AA consists of 15 contiguous Block Numbering Areas (BNAs) located in Cherokee, Ida, and Sac Counties and portions of Buena Vista and Calhoun Counties. All of the BNAs are middle-income. The second AA covers a portion of Woodbury County, consisting of 11 contiguous census tracts located in the Sioux City Metropolitan Statistical Area (MSA). Bank branches located in this AA include Sioux City, Anthon, and Cushing. The census tracts in the Woodbury County AA are 9% (one) low-income, 55% (six) middle-income, and 27% (three) upper-income tracts. The remaining tract is industrial in nature. Both AAs meet the requirements of CRA. Individuals can refer to the CRA public file for maps outlining the bank's AAs.

The rural AA is the bank's primary AA, accounting for 81% of total bank deposits. According to the U.S. Census, the population of the rural AA is 92,326. The 2001 weighted average updated median family income is \$48,400 for non-MSA areas in Iowa. Family incomes in this AA are 17% low-income, 20% moderate-income, 26% middle-income, and 37% upper-income. Twelve percent of households in the rural AA are below the poverty level. The median housing value in this AA is \$35,938, and 66% of households are owner-occupied. The area economy is reasonably stable with employment opportunities primarily related to agriculture, such as grain farming, cattle feeding, and hog feeding.

The Woodbury County AA has a population of 45,092. The 2001 weighted average updated median family income is \$51,900 for the Sioux City MSA. Family incomes in this AA are 22% low-income, 15% moderate-income, 20% middle-income, and 43% upper-income. Twelve percent of households in the Woodbury County AA are below the poverty level. The median housing value in this AA is \$43,097, and 67% of households are owner-occupied. Sioux City is a large retail and medical center with a total population of approximately 100,000. The local economy is stable with diversified employment opportunities in financial, medical, and retail industries.

Examiners made one community contact for the rural AA during this examination and reviewed several recent community contacts made in the Sioux City area. The new contact represented both the Holstein Chamber of Commerce and Holstein Development Authority. Discussions with the contact revealed agricultural and affordable housing lending as the primary credit needs of the area. Heritage Bank offers and originates these loan types.

The bank faces heavy competition with 30 community banks chartered in the bank's surrounding counties ranging in asset size from \$16 million to \$171 million, as well as a few local credit unions and larger regional banks. The bank has only a minor share of the Sioux City market, which is served by numerous other financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Heritage Bank's average loan-to-deposit ratio is reasonable, given the institution's size, financial condition, and AA credit needs. The bank's ratio averaged 92% over the past twenty quarters and was 95% at September 30, 2001. The twenty-quarter average for banks with similar products and services ranged from 38% to 121%, with an average of 73%.

Lending in Assessment Area

Heritage Bank originates a substantial majority of its loans within its two AAs. We reviewed a sample of agricultural, commercial, residential, and consumer borrowers to determine the bank's lending to individuals in the AAs. All loans were originated since the last CRA examination. The following table shows the findings of our sample:

ASSESSMENT AREA CONCENTRATION				
	# of Loans	% of total #	\$ of Loans	% of total \$
Inside AA	64	80%	\$1,709,798	73%
Outside AA	16	20%	\$626,658	27%
Totals	80	100%	\$2,336,456	100%

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

Heritage Bank has an excellent record of lending to borrowers of different income levels. We reviewed 20 consumer loans totaling \$113,890 to determine the bank's performance in this area. All of the loans in the sample were made to borrowers located within the bank's AAs and were originated since the last CRA examination. Lending levels, given the demographics of the rural AA, reflect excellent penetration among individuals of different income levels. The table below demonstrates the breakdown of loans to individuals as compared to the demographics of the rural AA.

CONSUMER LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS					
Income Level	# of loans	% of total #	\$ of loans	% of total \$	% of Households in the Rural AA
Low	8	40%	\$29,121	26%	24%
Moderate	6	30%	\$29,676	26%	18%
Middle	2	10%	\$5,550	5%	22%
Upper	4	20%	\$49,543	43%	36%
Totals	20	100%	\$113,890	100%	100%

The bank has an excellent record of residential real estate lending to borrowers of different income levels. We reviewed 20 residential real estate loans totaling \$960,537 to determine the bank's performance in this area. All of the loans in the sample were made to borrowers located within the bank's rural AA and were originated since the last CRA examination. Heritage Bank originated 50% of its loans to low- and moderate-income borrowers, which represent only 37% of families in the rural AA. The table below demonstrates the breakdown of the bank's residential loans to individuals as compared to the demographics of the rural AA.

RESIDENTIAL LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS					
Income Level	# of loans	% of total #	\$ of loans	% of total \$	% of Families in the Rural AA
Low	1	5%	\$13,500	1%	17%
Moderate	9	45%	\$346,364	36%	20%
Middle	4	20%	\$132,390	14%	26%
Upper	6	30%	\$468,283	49%	37%
Totals	20	100%	\$960,537	100%	100%

Based on our review of the Woodbury County AA, the bank has an excellent record of lending to borrowers of different income levels in this AA, as well. We reviewed 20 consumer loans totaling \$190,649 to determine the bank's performance in this area. The table below demonstrates the breakdown of consumer loans as compared to the demographics of this AA.

CONSUMER LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS					
Income Level	# of loans	% of total #	\$ of loans	% of total \$	% of Households in the MSA AA
Low	5	25%	\$45,923	24%	22%
Moderate	5	25%	\$56,543	30%	15%
Middle	4	20%	\$14,535	7%	20%
Upper	6	30%	\$73,648	39%	43%
Totals	20	100%	\$190,649	100%	100%

We reviewed 20 residential loans from the Woodbury County AA totaling \$751,938 to determine the bank's performance in this area. The bank originated 40% of its loans to low- and moderate-income borrowers, which represent only 35% of families in this AA. The table below shows the breakdown of residential loans as compared to the demographics of this AA.

RESIDENTIAL LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS					
Income Level	# of loans	% of total #	\$ of loans	% of total \$	% of Families in the MSA AA
Low	4	20%	\$109,693	15%	17%

Moderate	4	20%	\$200,750	27%	18%
Middle	8	40%	\$305,045	40%	24%
Upper	4	20%	\$136,450	18%	41%
Totals	20	100%	\$751,938	100%	100%

Heritage Bank has a satisfactory record of lending to agricultural borrowers of different sizes. We selected 20 loans totaling \$770,441 to determine the bank's lending to farms of different sizes. All of the loans in the sample were to farms located within the rural AA and originated since the last CRA examination. Seventy percent of the bank's lending was to smaller operations, those with less than \$250,000 in gross annual revenue. The following table shows the number, dollar volume, and corresponding percentages of the agricultural loan sample.

LOANS TO FARMS OF DIFFERENT SIZES					
Gross Revenue of Farms	# of loans	% of total #	\$ of loans	% of total \$	% of Farms in Rural AA
\$0 - \$100,000	6	30%	\$81,968	11%	55%
\$100,001 - \$250,000	8	40%	\$377,578	49%	26%
\$250,000 - \$500,000	5	25%	\$261,729	34%	12%
Over \$500,000	1	5%	\$49,166	6%	7%
Totals	20	100%	\$770,441	100%	100%

The bank has an excellent record of lending to businesses with revenues less than \$1 million. We reviewed a sample of 20 commercial loans totaling \$441,220 to determine the bank's lending to small businesses. All of the loans in the sample were made to businesses located within the bank's rural AA and were originated since the last CRA examination. All of the sampled loans were made to businesses with less than \$1 million in gross annual revenue. This exceeds 2001 Business Geodemographic Data, which shows 90% of businesses in the AA with gross annual revenues of \$1 million or less. The following table shows the number, dollar volume, and corresponding percentages of the commercial loan sample.

LOANS TO BUSINESSES OF DIFFERENT SIZES					
Gross Revenue of Businesses	# of loans	% of total #	\$ of loans	% of total \$	% of Businesses in Rural AA
\$0 - \$1,000,000	20	100%	\$441,220	100%	90%
Over \$1,000,000	0	0%	\$0	0%	10%
Totals	20	100%	\$441,220	100%	100%

Agricultural and commercial lending are not the bank's primary lending activities in the Sioux City MSA, so we did not perform a review of these loan products for the Woodbury County AA.

Geographic Distribution of Loans

A geographic distribution analysis of the bank's rural AA would not be meaningful as it is

composed entirely of rural towns with no low- or moderate-income geographies. However, since the Woodbury County AA includes one low-income tract, we did review the geographic distribution of the bank's consumer and residential loans in this AA. All of the loans in the sample were made to individuals within the AA and were originated since the last CRA examination.

Heritage Bank has an adequate record of providing consumer and residential real estate loans to individuals throughout the Woodbury County AA. We sampled 20 consumer loans totaling \$190,649 to determine the bank's dispersion throughout this AA. Although we did not identify any loans located in a low-income census tract, this is mitigated by the fact that the bank has only one low-income tract in its AA. The tract is located in downtown Sioux City, where only a small number of potential loan customers reside. The following table shows the number, dollar volume, and corresponding percentages of the consumer sample.

CONSUMER BORROWERS SAMPLE					
Census Tracts	# of loans	% of total #	\$ of loans	% of total \$	% of Households in each CT in MSA AA
Lower-Income	0	0%	\$0	0%	6%
Middle-Income	11	55%	\$96,179	50%	64%
Upper-Income	9	45%	\$94,470	50%	30%
Totals	20	100%	\$190,649	100%	100%

We sampled 20 residential real estate loans totaling \$751,938 to determine the bank's dispersion throughout this AA. All of the loans in the sample were made to individuals within the AA. We did not identify any loans located in a low-income census tract. However, this is mitigated by the fact that the AA's sole low-income tract is located in downtown Sioux City, where there is little available owner-occupied housing. The following table shows the number, dollar volume, and corresponding percentages of the residential loan sample.

RESIDENTIAL REAL ESTATE BORROWERS SAMPLE					
Census Tracts	# of loans	% of total #	\$ of loans	% of total \$	Owner-occupied houses in MSA AA
Lower-Income	0	0%	\$0	0%	1%
Middle-Income	16	80%	\$527,620	70%	66%
Upper-Income	4	20%	\$224,318	30%	33%
Totals	20	100%	\$751,938	100%	100%

Responses to Complaints

The bank has not received any complaints regarding CRA performance since the last CRA examination dated April 23, 1997.

Fair Lending Review

An analysis of 1998, 1999, and 2000 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.