

PUBLIC DISCLOSURE

July 21, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The Heritage Bank of St. Joseph
293558
10-29-4582**

**1701 South Belt Highway
St. Joseph, Missouri 64507**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such 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 Community Reinvestment Act (CRA) performance of The Heritage Bank of St. Joseph, St. Joseph, Missouri, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of September 8, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

The bank has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods or households, in a manner consistent with its resources and capabilities. The bank's loan-to-deposit ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs. In addition, a majority of the bank's loans are within its assessment area. The geographic distribution of loans and the distribution among borrowers of different incomes and to businesses of different sizes reflect a reasonable dispersion.

DESCRIPTION OF INSTITUTION

The Heritage Bank of St. Joseph is located in St. Joseph, Missouri, which is on Interstate 29 approximately 60 miles north of Kansas City. The bank's main office is located at 1701 South Belt Highway, with full-service branch offices at 6304 King Hill Avenue and 402 North Belt Highway.

All the offices are readily accessible to the community, and the King Hill branch office is located in a moderate-income census tract in southern St. Joseph. The bank's Community Reinvestment Act (CRA) performance was last reviewed as of October 23, 1995, when a CRA rating of satisfactory was assigned.

The bank has the ability to meet the credit needs of its assessment area based on its financial condition, size, and credit products. According to the bank's June 30, 1997 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$101,860M, of which loans comprised \$54,186 or 53 percent. Although the bank offers a variety of loan products to meet community credit needs, the bank is primarily a real estate and commercial lender, as shown in Table 1.

Table 1
THE HERITAGE BANK OF ST. JOSEPH'S LOAN PORTFOLIO
(As of June 30, 1997)

Loan Type	Amount (\$000s)	Percent of Total
Multiple and 1- to 4-family real estate	18,164	33
Commercial	13,374	25
Nonfarm nonresidential real estate	11,355	21
Farmland or agricultural	5,318	10
Consumer	5,282	10
Other	693	1
<i>TOTAL</i>	54,186	100

DESCRIPTION OF BANK'S ASSESSMENT AREA

The Heritage Bank of St. Joseph's assessment area, the St. Joseph metropolitan statistical area (MSA), is located in northwest Missouri. It is comprised of 31 census tracts in Buchanan County and 4 census tracts in Andrew County. Of these 35 census tracts, 3 are low-income, 7 are moderate-income, 16 are middle-income, and 9 are upper-income. The low- and moderate-income census tracts

are located within St. Joseph's city limits and encompass much of downtown and southern St. Joseph. According to the 1990 census, the total population for the area is 97,715 with upper-income families comprising the largest percentage at 39 percent. Buchanan County contains 85 percent of the MSA population. Approximately 21 percent of the assessment area population resides in the low- and moderate-income census tracts. Regional Employment and Income Series (REIS) data report that the population increased very slightly from 1990 to 1994. Additional assessment area characteristics are summarized in Table 2.

Table 2 BANK ASSESSMENT AREA CHARACTERISTICS	
Tract Summary	
Total Number of Census Tracts	35
Number of Low-Income Tracts	3
Number of Moderate-Income Tracts	7
Number of Middle-Income Tracts	16
Number of Upper-Income Tracts	9
Income Summary	
Median Family Income	\$28,721
Percent Low-Income Families	21
Percent Moderate-Income Families	17
Percent Middle-Income Families	23
Percent Upper-Income Families	39
Unemployment Summary	
Labor Force Population (Assessment Area)	46,287
Percent Unemployment (Assessment Area)	7.6
Percent Unemployment (State)	6.1
Miscellaneous Information	
Total Population	97,715
Percentage of Households Below Poverty	15
Percentage of Housing Units Vacant	9

According to the 1990 census, the bank's assessment area had a vacancy rate of 9 percent, slightly lower than the 11 percent vacancy rate for statewide areas of Missouri. Housing affordability for the assessment area is higher than that noted statewide. As reported in the 1990 census, the median housing value for the assessment area is \$40,906, compared to \$59,314 for Missouri statewide. The unemployment rate for the bank's assessment area was higher at almost 8 percent than the statewide rate of 6 percent in 1990. However, the St. Joseph Area Chamber of Commerce reported an unemployment rate for the MSA of 6 percent for first quarter 1997 and almost 5 percent for second quarter 1997. Contacts with community business leaders also noted that area unemployment has been declining. According to the Chamber of Commerce, the five largest employers in the St. Joseph MSA are: Heartland Health System; the School District of St. Joseph; Mead Products; Snorkel Company; and Johnson Controls-Battery Division.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance. These factors include: the penetration of loan originations inside and outside the bank's defined assessment area; the geographic distribution of loan originations within the bank's assessment area; the bank's record of lending to borrowers of different income levels and to businesses of different sizes; and a review of the bank's level of lending in relation to its deposits and that of other comparable financial institutions. In addition, a public official and community development leader were interviewed to gather insight into credit needs of the community and their perceptions of the bank's ability to meet those needs. The bank has not received any complaints relative to its performance under the CRA since the last examination. Therefore, this factor was not included in the analysis.

Lending in Assessment Area

Based on a sample of loans reviewed during the examination, a significant majority of the bank's lending occurs within its assessment area. Two loan products, residential real estate and small business loans, were reviewed in this analysis. Of the 69 loans reviewed, 61 loans or 88 percent were located in the bank's assessment area. Table 3 below demonstrates by product type the percentage by number and dollar volume of loans located in the bank's assessment area.

Table 3 LOANS WITHIN THE BANK'S ASSESSMENT AREA		
<i>Loan Type</i>	<i>Percentage of Total Loans</i>	<i>Percentage of Dollar Volume</i>
Residential Real Estate	97	99
Small Business	81	51

<i>Total Loans</i>	88	71
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Geographic Distribution of Loans

A review of the geographic distribution of sampled loans originated by the bank reflects a satisfactory dispersion within the assessment area. Percentages of loans by product type and census tract income level are summarized in Table 4.

Table 4 PERCENTAGE OF LOANS REVIEWED BY INCOME LEVEL OF CENSUS TRACT				
<i>Area Median Family Income</i>		\$28,721		
<i>Income Level of Census Tract</i>	<i>Percent of Business Loans Reviewed</i>	<i>Percent of Real Estate Loans Reviewed</i>	<i>Percent of Combined Loans Reviewed</i>	<i>Percent of Assessment Area Population</i>
<i>Low (Less than 50 percent of median income)</i>	3	-	2	4
<i>Moderate (50 to 80 percent of median income)</i>	23	32	28	17
<i>Middle (80 to 120 percent of median income)</i>	40	49	44	50
<i>Upper (Greater than 120 percent of median income)</i>	34	19	26	29
<i>Total</i>	100	100	100	100

Based on 1990 census data, 4 percent of the assessment area population live in the low-income census tracts, 17 percent live in the moderate-income tracts, 50 percent live in the middle-income tracts, and 29 percent live in the upper-income tracts. In comparison, the bank originated 2 percent, 28 percent, 44 percent, and 26 percent of the loan sample reviewed, in the low-, moderate-, middle-, and upper-income census tracts, respectively. In addition, the loan sample indicated that The Heritage Bank of St. Joseph originates loans throughout the geographies in its assessment area. This conclusion is supported by the geographic analysis conducted quarterly by the bank's compliance officer. Two of the 35 MSA census tracts in which the bank has not originated many loans consist primarily of a state hospital, a golf course, and an airport.

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

The bank's distribution of residential real estate loans among individuals of different income levels and loans to businesses of different sizes is reasonable given the demographics of the assessment area. Of the 31 real estate loans within the assessment area, 19 percent were to low-income borrowers; 19 percent were to moderate-income borrowers; 26 percent were to middle-income borrowers; and 35 percent were to upper-income borrowers. The percentages of low-, moderate-, middle-, and upper-income families in the assessment area are 21, 17, 23, and 39 percent, respectively. Although housing affordability for the assessment area is higher than statewide areas, the median family income

for the area is \$28,721, which is 11 percent lower than the median income of \$31,838 in statewide areas. In addition, the ratio of families below the poverty level in the assessment area at 12 percent is slightly higher than the statewide rate at 10 percent.

Review of the 30 business loans within the assessment area revealed 28 loans or 93 percent were for loan amounts of \$100M or less. Credit decisions for 21 of the 30 business loans were based on business revenue and 9 were based on borrower income. All 21 of the revenue-based loans or 100 percent were made to small businesses. Of the nine income-based loans, three loans or 33 percent were made to low- and moderate-income borrowers.

The bank also makes a large number of small consumer loans that often benefit lower income individuals. The bank has originated 188 loans for less than \$1M which total \$129.9M since the last examination. In addition, the bank originates loans under various government-insured programs to help meet the credit needs of individuals in the assessment area. Since the previous examination, it has originated two Small Business Administration loans for \$325M and one loan for \$4.4M under the Missouri Department of Agriculture's Crop and Livestock Loan Program. This program provides loan recipients approved under 4-H or FFA livestock or field crop projects an interest rebate of one-half the interest paid to a commercial lender. In addition, the bank's participation in the Missouri First Linked Deposit Program is evidenced by a pledge of \$44M, which is currently loaned to one small business customer. This program entails the state depositing funds with the bank at a discounted interest rate. In return, the bank loans these funds at a discounted rate to farmers and small business owners, based on guidelines set by the state.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is considered satisfactory based on the institution's size, financial condition, and credit needs of the assessment area. The Heritage Bank of St. Joseph's ratio averaged 57 percent for the seven quarters since the prior examination. The average loan-to-deposit ratio for banks in the area ranged from 32 percent to 83 percent. Thus, the bank's loan-to-deposit ratio is in the middle range compared to that of four other institutions in the area. The bank's wide range of products made available to meet the credit needs of borrowers and its demonstrated willingness to provide credit to borrowers of different income levels, particularly low-to-moderate income borrowers and businesses of different sizes supports the reasonableness of the bank's loan-to-deposit ratio. The bank's national peer group averaged 70 percent for the same period. The bank's peer group consists of insured commercial banks having assets between \$50MM and \$100MM with three or more banking offices and located in a metropolitan area.

No substantive violations of the antidiscrimination laws and regulations were identified. A review of bank lending policies, credit applications, loan documentation, and loan officer interview procedures with loan applicants revealed no prohibited practices designed to discourage applicants.

Although technical and inadvertent concerns related to Regulation B were identified during the examination, none of the concerns were discriminatory in nature. Management stated that additional training would be provided to ensure future compliance.