

PUBLIC DISCLOSURE

April 13, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank: Heartland Bank
043918200000
12 North Main Street
Croton, Ohio 43013

Supervisory Agency: Federal Reserve Bank of Cleveland
P.O. Box 6387
Cleveland, Ohio 44101-1387

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.

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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 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 Heartland Bank, Gahanna, Ohio, prepared by the Federal Reserve Bank of Cleveland, the institution's supervisory agency, as of April 13, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

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

Heartland Bank ("HB") has a satisfactory record of helping to meet the credit needs of its entire community, consistent with the bank's resources and capabilities. The bank's loan-to-deposit ratio is reasonable, a majority of HB's loans are within its assessment area, loans are reasonably dispersed throughout the assessment area, and loans reflect an excellent penetration among individuals of different income levels, including low- and moderate-income individuals and small businesses.

DESCRIPTION OF INSTITUTION

The Heartland Bank's main office is located at 850 North Hamilton Road, Gahanna, Ohio. The bank operates eight full-service branch offices, Croton, Dublin, Gahanna, Grove City, Johnstown, Newark, Columbus (Wilson Road), and Reynoldsburg. The Northeast Columbus office is full-service with the exception of no tellers or cash on the premises. HB serves Franklin County and portions of the following surrounding counties: Delaware, Fairfield, Licking, and Pickaway Counties. All ATMs have 24-hour access. Based on its size and financial condition, the bank is able to effectively meet the credit needs of the communities in its assessment area. The types of credit offered, as noted in the bank's public file, include consumer loans, real estate loans, and loans to finance agriculture and small businesses.

The bank reported total assets of \$174 million in its December 31, 1997, Report of Condition and Income ("Call Report"). Table 1 reflects the distribution of the bank's loan portfolio as of that date.

Table 1

LOAN PORTFOLIO DISTRIBUTION AS OF DECEMBER 31, 1997		
Type of Loan	Amount (In Thousands)	Percentage of Total Loans
Commercial loans	27,529	10.90%
Loans secured by real estate:		
Secured by nonfarm, nonresidential properties	26,347	11.91%
Revolving, open end loans secured by 1- to 4-family residential properties	4,408	0.00%
Loans secured by 1- to 4-family residential properties	27,862	32.34%
Secured by farmland	89	11.99%
Construction and land development	15,544	0.96%
Secured by multifamily (5 or more) residential properties	913	0.00%
Agricultural loans	816	6.67%
Consumer loans	19,782	21.60%
Other	1,682	3.63%
Total	124,972	100.00%

The bank's performance under CRA was rated "Satisfactory" at the previous examination of January 21, 1997.

DESCRIPTION OF HEARTLAND BANK ASSESSMENT AREA

The bank's assessment area is part of the Columbus MSA (1840) which is generally defined as Delaware, Fairfield, Franklin, Licking, and Pickaway Counties. More specifically, the bank has determined its assessment area to include the following census tracts:

Delaware County

114.1

114.2

116

117

Fairfield County

305

Franklin County

26	43	45	46.1
47	48.1	48.2	62.1
62.2	62.3	63.6	63.7
63.81	63.91	69.23	69.24
69.31	69.32	69.33	69.42
69.43	69.44	69.45	69.9
70.1	70.2	71.11	71.12
71.13	71.2	71.3	71.92
71.93	71.94	72	73.90
74.10	74.22	74.24	74.25
74.90	75.12	75.20	75.31
75.32	75.33	75.34	75.40
75.50	79.2	79.3	79.4
79.5	81.1	81.2	81.3
81.4	81.6	82.1	82.3
82.4	82.11	83.12	83.21
83.22	83.4	83.5	83.6
83.7	83.8	83.91	93.62
93.71	93.81	93.82	93.83
93.84	93.85	93.86	93.90
96	97.11	97.12	97.2
97.4	97.5	98	

Licking County

7501	7504	7507	7510
7513	7516	7519	7522
7525	7528	7531	7533
7536	7539	7541	7544
7547	7550	7553	7556
7562	7577	7589	

Pickaway County

213	214
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The following table shows the distribution of those census tracts among the four income

categories:

Table 2

INCOME CLASSIFICATION OF CENSUS TRACTS IN ASSESSMENT AREA					
	Census Tract Income Classifications ⁶				
	Low ¹	Moderate ²	Middle ³	Upper ⁴	Total
Number of Tracts	6	20	56	33	115
Percentage of Total Tracts*	5%	17%	49%	29%	100%
Population ⁵	18,728	76,055	240,386	239,238	574,407
Percentage of Total Population*	3%	13%	42%	42%	100%
Number of Households ⁵	6,694	29,781	92,391	87,652	216,518
Percentage of Total Households*	3%	14%	43%	40%	100%
Owner-Occupied Households ⁵	2,754	14,351	57,511	62,021	136,637
Percentage of Total OOH*	2%	11%	42%	45%	100%
Number of Families ⁵	4,836	19,619	66,149	65,429	156,033
Percentage of Total Families*	3%	13%	42%	42%	100%

- 1 Less than 50 percent of the metropolitan statistical area ("MSA") median family income.
- 2 At least 50 percent and less than 80 percent of the MSA median family income.
- 3 At least 80 percent and less than 120 percent of the MSA median family income.
- 4 120 percent or more of the MSA median family income.
- 5 Based on 1990 Census Data information.
- 6 Based on HUD's estimated median family income for the MSA of 8400 which was \$38,800 in 1997.
- * May not total 100 percent due to rounding.

Based on the information from the 1990 census, there are 574,407 people and 216,518 households within Heartland Bank's assessment area. The median household income in the assessment area is \$35,105 and the median family income is \$40,737. The median family income in Ohio for 1997 is \$38,800. Household income includes the income of all persons residing within a household, whereas family income includes only the income of persons related by blood, marriage, or adoption within a household.

The population of the Columbus MSA (1840) has grown at a rate faster than the state and the nation for the last one, five, and ten years, reflecting the areas' strong job opportunities. Residents have enjoyed an extremely low unemployment rate over the past several years. Industry shares of total employment have not changed much in the five years ended 1995. There has been a slight shift of employment from manufacturing to services and retail. In 1995 the service and retail trade industries accounted for the largest share of employment in the MSA, about 24% each.

The ten largest employers in the MSA comprise only 15% of total employment. Major employers in Columbus MSA are listed below:

Table 3

Largest Employers Columbus MSA (May, 1997)	
Employer	# of Employees
The State of Ohio	28,931
The Ohio State University	116,755
United States Government	16,500
Honda of America Manufacturing, Inc.	12,500
The Limited, Inc.	10,000
City of Columbus	9,112
Nationwide Insurance Enterprise	9,100
Kroger Company	7,500
Banc One Corporation	7,473
Columbus Public Schools	6,977

In February, the unemployment rate for the MSA was 2.6%, far less than the state unemployment rate of 4.1% and national rate of 4.6%. Total employment grew at an extremely fast pace for the six-month period ended August, 1997. In fact, area employment grew 10.6%--more than eight percentage points higher than national employment growth. The Greater Columbus Chamber of Commerce reported that the growth in employment is not attributed to any one company relocating to Columbus, but a general expansion of businesses—especially in the information and technology fields.

Not only has the region had incredibly low unemployment, it has also experienced very high per capita income growth. Per capita income for the region is more than \$2,000 higher than the state, and has grown at a faster rate than the strong state and national growth rates for the past one, five, and ten year periods ended 1995 (the latest data available).

Two community contacts were conducted in conjunction with the examination. These contacts provided information used in developing the performance context for the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank's CRA performance was analyzed using interagency examination procedures. The analysis includes the following criteria:

- loan-to-deposit ratio;
- lending activity inside and outside the bank's assessment area;
- distribution of loans to borrowers of different income levels;
- distribution of loans to businesses and farms of different sizes;
- reasonableness of the geographic distribution of loans within the bank's assessment area;
- bank's response to written complaints regarding its performance in helping to meet the credit needs of the assessment area.

Loan-To-Deposit Ratio

The Heartland Bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment area credit needs, and competition. The bank's average loan-to-deposit ratio for the five quarters between examinations, based on December 31, 1997, Uniform Bank Performance Report is 77.30%. The bank's loan-to-deposit ratio was 8.55% more than the national peer average of 68.75%. The national peer bank ratio was calculated using the loan-to-deposit ratios of other financial institutions having assets between \$100 million and \$300 million with 3 or more banking offices, and located in a metropolitan area.

Lending Volume Within Assessment Area

Loan data from the bank's 1997 HMDA-LAR as well as bank-provided information on 1997 and the first two months of 1998 consumer-other secured, motor vehicle, and commercial loans was reviewed. Commercial loans included small and large (over \$100,000 in gross revenues) businesses. As shown in the following table, the concentration of the number and dollar volume of loans within the assessment area meets standards for satisfactory.

Table 4

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA		
	<i>Inside the Assessment Area</i>	<i>Outside the Assessment Area</i>
Loan Type		

	Number Of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of Loans	%
Consumer-Other Secured	60	79%	\$735,000	80%	16	21%	\$190,000	20%
Motor Vehicle	55	72%	\$477,000	69%	21	28%	\$211,000	31%
Small Business	54	73%	\$3,978,000	64%	20	27%	\$2,288,000	36%
Residential	98	80%	\$8,356,000	78%	25	20%	\$2,326,000	22%
Total	267	77%	\$13,546,000	73%	82	23%	\$5,015,000	27%

Lending to Borrowers of Different Incomes

The distribution of borrowers, given the demographics of the assessment area, reflects an excellent penetration among borrowers of different income levels, particularly low- and moderate-income borrowers.

Overall, the distribution of total loans sampled to low- and moderate-income level borrowers is significant. For example, 45% of all consumer-other secured loans were made to borrowers of low- to moderate-income levels, while 60% of all motor vehicle loans were made to low- to moderate-income borrowers. These percentages are particularly noteworthy considering that only 31% of the families in the assessment area are low- to moderate-income, of which 6% are families whose incomes fall below the poverty level. The following table shows the breakdown of loan types to borrowers within the different income levels by loan product for the assessment area.

Table 5

DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER			
Income Level	<u>Consumer-All</u>	<u>Residential-All</u>	<i>% of Families⁵</i>

	No.	%	\$ Amount	%	No.	%	\$ Amount	%	%
Low ¹	28	24	185,000	15	7	7	190,000	2	15
Moderate ²	32	28	292,000	24	21	21	934,000	11	16
Middle ³	25	22	206,000	17	17	17	819,000	10	25
Upper ⁴	28	24	503,000	42	45	46	3,912,000	47	44

- 1 Less than 50 percent of the metropolitan statistical area ("MSA") median family income
- 2 At least 50 percent and less than 80 percent of the MSA median family income
- 3 At least 80 percent and less than 120 percent of the MSA median family income
- 4 120 percent or more of the MSA median family income
- 5 Represents the percentage of families in the assessment area categorized by income level.

Additionally, the distribution of small business loans within the assessment area by borrower revenue is also significant. As shown in the following tables, 93% of the small business loans originated were made to businesses with revenues less than \$100,000. The percentage of dollar amount of small business loans originated is 98% with revenues less than \$100,000.

Table 6

DISTRIBUTION OF COMMERCIAL LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Revenue Category ¹	Number of Loans	%	Dollar Amount of Loans	%
Less than or equal to \$100,000	45	93	1,265,000	98
Greater than \$100,000 but less than or equal to \$250,000	4	100	706,000	100
Greater than \$250,000 but less than or equal to \$1,000,000	5	100	1,983,000	100

¹ Based on gross annual revenue figures

Geographic Distribution Within Assessment Area

The bank's overall geographic distribution of loans reflects a reasonable dispersion throughout the bank's assessment area given the bank's location, size, and level of competition. As depicted in the following table, a substantial majority of the loans made were concentrated in middle-income census tract areas.

An analysis of the geographic distribution of loans by income level of census tracts reveals that

the bank's borrowers are concentrated in middle and upper-income census tracts. However, twenty moderate income census tracts comprise 17% of the bank's assessment area. According to 1990 census data, 13% of the total population of the assessment area reside in these moderate income census tracts. While the bank is succeeding in extending credit to moderate income borrowers in their assessment area for consumer and residential loans, the distribution for low income census tracts is less favorable. The following table shows the distribution of the bank's borrowers by the income levels of their respective census tracts:

Table 7

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACTS COMPARED TO CHARACTERISTICS OF THOSE TRACTS								
	Low-Income ¹		Moderate-Income ²		Middle-Income ³		Upper-Income ⁴	
	No.	\$	No.	\$	No.	\$	No.	\$
Consumer-All	1	7,000	15	86,000	66	698,000	33	421,000
<i>Percent of Total</i>	1%	1%	13%	7%	57%	58%	29%	35%
Residential-All	1	13,000	17	576,000	61	5,143,000	19	2,624,000
<i>Percent of Total</i>	1%	.2%	17%	7%	62%	62%	19%	31%
Small Business	1	28,000	5	655,000	23	788,000	25	2,507,000
<i>Percent of Total</i>	2%	1%	9%	17%	43%	20%	46%	63%
Number of Tracts in Assessment Area <i>Percentage of Tracts</i>	6 5%		20 17%		56 49%		33 29%	
Number of Families by Tract <i>Percentage of Families</i>	4,836 3%		19,619 13%		66,149 42%		65,429 42%	
Owner- Occupied Households by Tract <i>Percentage of Households</i>	2,754 2%		14,351 11%		57,511 42%		62,021 45%	

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- 1 Census tract having less than 50 percent of the MSA median family income.
 - 2 Census tracts having at least 50 percent and less than 80 percent of the MSA median family income.
 - 3 Census tracts having at least 80 percent and less than 120 percent of the MSA median family income.
 - 4 Census tracts having 120 percent or more of the MSA median family income.

ADDITIONAL FACTORS

Two complaints were received by the Federal Reserve Bank of Cleveland. The complaints were resolved and did not involve any regulatory violations nor the bank's Community Reinvestment Act performance.

No substantive violations of the fair lending laws were noted during the examination. Interviews with employees and management revealed an understanding of the regulatory requirements regarding fair lending.