



Small Bank Performance Evaluation

PUBLIC DISCLOSURE

December 1, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The Headland National Bank
Charter Number 13752**

**40 Main Street
Headland, AL 36345**

Office of the Comptroller of the Currency

**Southeast District
Marquis One Tower, Suite 600
245 Peachtree Center Avenue, N.E.
Atlanta, Georgia 30303**

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 Headland National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of December 1, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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

The rating is based on the following:

- ◆ A substantial majority of the loans were made in the bank’s assessment area.
- ◆ HNB maintains a satisfactory loan to deposit ratio considering the bank’s size and resources in relation to other financial institutions in the assessment area.
- ◆ Lending patterns indicate satisfactory distribution of loans among borrowers of different income levels and businesses of different sizes.
- ◆ The geographic distribution of loans reflect reasonable penetration throughout the assessment area.

The following table indicates the performance level of The Headland National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The Headland National Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The Headland National Bank (HNB) is a \$70 million community bank located in Headland, Alabama, approximately 8 miles north of Dothan. The bank is majority owned by HNB Holding Company, a one bank holding company. The bank operates one full service office including an automated teller machine. HNB offers a variety of products including real estate, consumer, agricultural and commercial loans and various deposit accounts. The loan mix based on 9/30/98 Call Report is as follows:

Loan Type	Dollar Amounts in (000's)	% of Loan Portfolio
Consumer Real Estate	8,972M	33%
Consumer	6,000M	22%
Commercial	6,459M	23%
Commercial Real Estate	3,421M	12%
Agricultural	2,834M	10%
Total	\$27,686M	100%

HNB is in sound financial condition with no legal impediments which would prevent it from meeting the credit needs of the community. The bank's previous CRA rating was "Satisfactory" (6/26/95). Information obtained from bank reports were analyzed and reviewed for accuracy.

DESCRIPTION OF ASSESSMENT AREA

Henry, Houston and Dale Counties

The bank's assessment area (AA) consists of Henry, Houston and Dale counties. Henry county contains 5 middle income block numbering areas (BNAs) and 1 upper income BNA. The weighted average median family income for the county is \$28,028. Houston and Dale counties comprise the Dothan metropolitan statistical area (MSA 2180) which contains 1 low income, 5 moderate income, 23 middle income, 5 upper income and 1 other (military area) census tracts. The weighted average median family income for the MSA is \$29,738. HNB's AA meets all legal requirements set forth by the CRA regulation and does not arbitrarily exclude any low- or moderate- income areas.

The estimated population for the tri-county area is approximately 146,338. Employment is centered primarily in manufacturing, farming and service industries. Major employers in Henry County are: West Point Stevens (850), Great Southern Wood Preserving (250), Cutler Egg Products (165) and Golden Peanut Company (100). The largest employers in the Dothan area include: Sony Magnetic Products, Perdue Farms, Michelin Tire Corporation and Pemco World Air Services.

There are 13 banks and several credit unions which operate in the assessment area including branches of the state's largest financial institutions. HNB is market leader in the city of Headland, but relatively small in comparison to other institutions throughout the entire assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio (LTD)

HNB's loan to deposit ratio (LTD) is reasonable and meets the standards for satisfactory performance.

The bank's quarterly LTD ratio between 9/30/95 thru 9/30/98 averaged 46%. During this time frame, the bank's LTD is trending upwards from a low of 42% (3/96) to a high of 53% (6/98). As of 6/30/98, HNB's LTD ratio ranked nationally at the 19th percentile. Among community banks located within the assessment area, HNB ranked 4th out of a total of 6 banks with assets between \$50MM and \$80MM.

The lower loan to deposit ratio is reflective of the bank's relatively smaller size and lack of offices in the majority of the assessment area, details of which are explained in the description section of this evaluation.

Comparison of Credit Extended Inside and Outside of the Bank's Assessment Area

A substantial majority of both dollar amount and number of loans are made to borrowers within the bank's assessment area.

Loans Originated in 1997

Location	# of Loans	% of Loans (by #)	\$ Volume of Loans (000)	% of Loans (by \$)
<i>Henry County</i>	780	<i>58%</i>	14,690	<i>66%</i>
<i>Houston County</i>	391	<i>29%</i>	5,730	<i>26%</i>
<i>Dale County</i>	56	<i>4%</i>	798	<i>3%</i>
<i>Total Inside AA</i>	1,227	<i>91%</i>	21,218	<i>95%</i>
<i>Outside AA</i>	118	<i>9%</i>	1,103	<i>5%</i>
Total	1,345	100%	\$22,321	100%

Source: Bank Reports.

Loans Originated from 1/1/98 to 10/26/98

Location	# of Loans	% of Loans (by #)	\$ Volume of Loans	% of Loans (by \$)
<i>Henry County</i>	639	54%	9,358	59%
<i>Houston County</i>	334	29%	5,075	32%
<i>Dale County</i>	69	6%	632	4%
<i>Inside AA</i>	1,042	89%	15,065	95%
<i>Outside AA</i>	134	11%	828	5%
Total	1,176	100%	\$15,893	100%

Source: Bank Reports

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

The distribution of loans to borrowers of different income levels and small businesses is adequate and meets standards for satisfactory performance.

Information regarding the bank's distribution of loans by borrower's income level based on Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) reports for loans made from 1/97 to 9/98 are detailed below. Income levels are categorized based on the Department of Housing and Urban Development's (HUD) estimates of median family income for the Dothan MSA 2180 and the statewide non-MSA, which are \$38,700 and \$32,600 respectively. For comparison purposes, this evaluation compared the bank's lending to the percentage of families in assessment areas from 1990 census data.

HNB's Consumer RE Distribution for Henry County

Origination	% of Families by Income	# of Loans originated	% of Total (by #)
Low-Income	19.39%	13	15.66%
Moderate-Income	13.90%	10	12.05%
Middle-Income	20.64%	16	19.28%
Upper-Income	46.06%	44	53.01%
Total	100%	83	100%

Source: 1990 Census Information and 1997 & 1998 HMDA-LAR Data.

HNB's Consumer RE Distribution for Dothan MSA 2180 (Houston and Dale Counties)

Origination	<i>% of Families by Income</i>	# of Loans originated	<i>% of Total (by #)</i>
Low-Income	<i>20.63%</i>	1	<i>3.85%</i>
Moderate-Income	<i>17.79%</i>	4	<i>15.38%</i>
Middle-Income	<i>22.64%</i>	11	<i>42.31%</i>
Upper-Income	<i>38.93%</i>	10	<i>38.46%</i>
Total	<i>100%</i>	26	<i>100%</i>

Source: 1990 Census Information and 1997 & 1998 HMDA-LAR Data.

HNB's Consumer Loan Distribution for Dothan MSA 2180

Origination	<i>% of Families by Income</i>	# of Loans originated	<i>% of Total (by #)</i>
Low-Income	<i>20.63%</i>	25	<i>48.08%</i>
Moderate-Income	<i>17.79%</i>	19	<i>36.54%</i>
Middle-Income	<i>22.64%</i>	3	<i>5.77%</i>
Upper-Income	<i>38.93%</i>	5	<i>9.61%</i>
Total	<i>100%</i>	52	<i>100%</i>

Source: Sample of Consumer Loans made in 1998.

As shown in the above data, the bank performed satisfactorily in consumer RE lending in Henry County. HNB's lending to low- and moderate- income borrowers was comparable to the demographics of the AA. However, the bank's consumer RE lending in the Dothan MSA was less representative, particularly in the low- income category. HNB does not make a large number of consumer RE loans in the Dothan MSA due in part to the lack of a physical presence in the area. Therefore, we sampled the bank's other consumer loan products. Under consumer lending, the bank performed quite well as loan penetration well exceeded benchmarks in both low- and moderate- categories. In addition, the bank made 248 loans with origination amounts of less than \$2,000 totaling \$280,000.

HNB's Loan Distribution - Small Business

Approximately 45% of the bank's loan portfolio is commercial or agricultural in nature. Our sample revealed that a majority of these loans were made to small businesses (businesses with gross revenues less than \$1,000,000).

Geographic Distribution of Loans

- ◆ The geographic distribution of consumer RE and consumer loans reflect reasonable penetration in the assessment area.

Loans made within Henry County comprise 54% of the number and 58% of the dollar amount of the bank’s overall lending. The BNAs in Henry County are designated as seven middle income tracts and two upper income tracts. A meaningful geographic distribution analysis could not be performed because none of the BNAs are low- and moderate- income areas. However, we did perform an analysis of the bank’s consumer real estate and other consumer lending in the Dothan MSA.

Geographic Distribution of Consumer RE Loans for Dothan MSA 2180

Origination	<i>% of Total Census Tracts</i>	# of Loans in Census Tract	<i>% of Total</i>	\$ of Loans in AA(000's)	% of Total
Low-Income (1)	<i>2.86%</i>	0	<i>0%</i>	0	0%
Moderate-Income (5)	<i>14.29%</i>	3	<i>15.79%</i>	\$122	20.23%
Middle-Income (23)	<i>65.70%</i>	13	<i>68.42%</i>	\$392	65.01%
Upper-Income (5)	<i>14.29%</i>	3	<i>15.79%</i>	\$89	14.76%
Other (NA) (1)	<i>2.86%</i>	0	<i>0%</i>	0	0%
Total (35)	<i>100%</i>	19	<i>100%</i>	\$603	100%

Source: Bank’s HMDA-LAR Data

Geographic Distribution of Consumer Loans for Dothan MSA 2180

Origination	<i>% of Total Census Tracts</i>	# of Loans in Census Tract	<i>% of Total</i>
Low-Income (1)	<i>2.86%</i>	2	<i>1.67%</i>
Moderate-Income (5)	<i>14.29%</i>	12	<i>10.00%</i>
Middle-Income (23)	<i>65.70%</i>	104	<i>86.66%</i>
Upper-Income (5)	<i>14.29%</i>	2	<i>1.67%</i>
Other (NA) (1)	<i>2.86%</i>	0	<i>0%</i>
Total (35)	<i>100%</i>	120	<i>100%</i>

Source: A sample of 120 loans made between 1/1/98 and 10/26/98

The distribution of loans in moderate- income tracts is consistent with the percentage of moderate- income tracts in the assessment area. However, the lending in the low- income tract is less than the benchmark for the assessment area. The opportunity to lend in the low- and moderate- income tracts is limited by having owner occupied units of 1.12% and 9.15% respectively.

Response to Complaints

No complaints were received from the public since the prior examination.

Results of Fair Lending Review

Our fair lending review did not identify evidence of disparate treatment or violations of antidiscrimination laws and regulations. The bank has policies and procedures in place which provide satisfactory guidance on fair lending requirements.