

PUBLIC DISCLOSURE

March 2, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage Bank and Trust Company
14632**

**115 West Main Street, Box 98
Darlington, Indiana 47904**

**Federal Deposit Insurance Corporation
Division of Compliance and Consumer Affairs
Chicago Regional Office
500 West Monroe, Suite 3300
Chicago, Illinois 60661**

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 **Heritage Bank and Trust Company** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 2, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

Heritage Bank and Trust Company has a satisfactory record of helping to meet the credit needs of its assessment area in a manner consistent with its resources and capabilities. The bank's assessment area includes all of Montgomery and Tippecanoe Counties. The area is considered appropriate for the size and operating nature of the bank and does not arbitrarily exclude low- and moderate- income geographies. The loan-to-deposit ratio is considered adequate. Real estate, consumer instalment, commercial, and agricultural loans were used to evaluate the bank's performance in meeting the credit needs within the assessment area. The bank's performance is considered excellent when reviewing the borrower income distribution of real estate and consumer instalment loans and the gross business revenue distribution of commercial and agriculture loans. The geographic distribution of loans also reflects a reasonable penetration throughout the assessment area. Heritage Bank and Trust Company is in compliance with the substantive provisions of anti-discrimination laws and regulations.

DESCRIPTION OF INSTITUTION

Heritage Bank and Trust Company, Darlington, Indiana is located in the Northeast portion of Montgomery County approximately 50 miles Northwest of Indianapolis, Indiana. Montgomery County is contiguous (South) to Tippecanoe County where the bank's only branch is located. The branch office is located in Lafayette, Indiana in census tract number 19.00, an upper-income geography. However, directly across the street from the branch office is census tract 18.00, a moderate-income geography. The majority of the operations occur at the Lafayette branch. Both of the bank's mortgage loan officers are located at the branch. The December 31, 1998 Statement of Condition reflects total assets of \$14,390,000, total loans of \$10,078,000, and total deposits of \$13,161,000. Bank credit is concentrated in residential real estate credits. Residential real estate loans comprise approximately 87 percent of the outstanding loan portfolio. The bank's outstanding loans are distributed in the following chart.

OUTSTANDING LOANS		
DESCRIPTION	NUMBER	PERCENT
Agricultural	221,000	2%
Commercial	323,000	3%
Consumer/Installment	780,000	8%
Residential	8,751,000	87%
Other	3,000	0%
TOTALS	10,078,000	100%

The bank's holding company is Heritage Bancshares, Inc., a one-bank holding company. No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is composed of two whole counties, Montgomery County and Tippecanoe County. The assessment area includes 3 low-income geographies, 8 moderate-income geographies, 24 middle-income geographies, and 8 upper-income geographies. The low- and moderate-income geographies are all located in or around the Purdue University campus. Therefore, a substantial amount of lending in these areas is not expected.

The December 1998 Bureau of Labor Statistics; unemployment figures reflect an unemployment rate of 2.9 percent for the State of Indiana, a rate of 3.2 percent for Montgomery County, and 2.0 percent for Tippecanoe County. These figures compare favorably with the national unemployment rate of 4.0 percent.

Tippecanoe County is located in Metropolitan Statistical Area (MSA), 3920. According to the 1990 census, the population of the assessment area is 165,034.

The bank faces competition from financial institutions in many of the communities it serves. Located in the assessment area there are 61 competing financial institutions.

There are 62,091 housing units in the assessment area; 57 percent are owner-occupied, 38 percent are rental units, and 5 percent are vacant. The median home value in the assessment area is \$60,375.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit ratio indicates an adequate responsiveness to area credit needs. The bank's average loan-to-deposit ratio, based on twelve quarters since the last evaluation, is approximately 80 percent. Of the local competitors, none are similar to the bank in terms of size, asset structure, and loan products. The bank has a substantial amount of competition in Tippecanoe County. The bank does sell some real estate loans on the secondary market. The bank has closed and sold 69 loans totaling \$6,551,920 over the past three years. Sold loans are not in the loan-to-deposit ratio, but should be considered when analyzing the volume of lending. All of these sold loans were located within the bank's assessment area.

Loan Review

The evaluation of the bank's lending performance is based upon the review of all agricultural and business loans and a sample of real estate loans and consumer instalment loans since February 1996. The samples consisted of 46 real estate loans totaling \$3,818,401 and 45 instalment loans totaling \$268,742. The universe of loans was not readily available. A large number of loans were made and paid since the previous evaluation. The bank was able to provide a listing of these loans, however, the original amount was not available to determine a universe of loans.

LENDING IN ASSESSMENT AREA

The bank's performance in this category varies greatly between the real estate portfolio and consumer instalments, business, and agricultural loans. Of the real estate loans since the last evaluation, the majority of the loans are funded outside the bank's assessment area. This is primarily due to the bank's construction-only lending in the northern part of the state.

When consumer instalment, business, and agriculture loans were reviewed it was determined that the vast majority of these loans are made within the assessment area. The chart below breaks out the percentage of number and dollar amount of each category.

**Real Estate Loans, Instalment Loans, Small-Business Loans, Agriculture Loans
Made Within Assessment Area**

TABLE III	NUMBER OF LOANS ORIGINATED WITHIN ASSESSMENT AREA	DOLLAR VOLUME OF LOANS ORIGINATED WITHIN ASSESSMENT AREA
LOAN TYPE		
REAL ESTATE	14 loans=30%	\$851,952=22%
INSTALMENT	40 loans= 89%	\$251,976=94%
SMALL-BUSINESS	31 loans= 91%	\$689,462=83%
FARM	35 loans= 97%	\$480,054=99%

If every loan the bank funded over the past three years was reviewed the majority of the loans would be funded outside the bank's assessment area. The primary reason for this is that the bank has a niche in residential construction-only lending. Because of the nature of this type of lending (six to nine months in length) and the location of the majority of these loans (northern part of the State), the bank's lending in the assessment area appears inadequate. However, when the size of this institution is considered, \$14,000,000, and is compared to the total loans being produced inside the assessment area, the bank's lending in the assessment area appears adequate. Over the past three years that bank has funded over \$49,793,236 in loans. Of this amount, over \$17,028,705 has been funded to borrowers within the assessment area. This dollar volume of lending in the assessment area is considered acceptable.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES AND FARMS OF DIFFERENT GROSS BUSINESS REVENUES

The 1998 Department of Housing and Urban Development (HUD) estimated median family income for the non-metropolitan area of Montgomery County is \$41,100. The 1998 Department of Housing and Urban Development (HUD) estimated median family income for Tippecanoe County, which is located in Lafayette, Indiana MSA 3920, is \$48,700. These estimated incomes were used for borrower-income distribution analysis. The following table provides information on how each income level is defined.

1998 Lafayette, Indiana MSA # 3920 Estimated MFI		
INCOME LEVEL	PERCENT OF MEDIAN FAMILY INCOME	INCOME RANGE
Low	Less than 50%	Less than \$24,350
Moderate	50% to 80%	\$24,350 to less than \$38,960
Middle	80% to 120%	\$38,960 to less than \$58,440
Upper	120% and over	\$58,440 and over

1998 Indiana Non-MSA Estimated MFI		
INCOME LEVEL	PERCENT OF MEDIAN FAMILY INCOME	INCOME RANGE
Low	Less than 50%	Less than \$20,550
Moderate	50% to 80%	\$20,550 to less than \$32,880
Middle	80% to 120%	\$32,880 to less than \$49,320
Upper	120% and over	\$49,320 and over

The bank has achieved an excellent penetration among borrowers of different incomes. The following table reflects the lending distribution of the sampled residential real estate and consumer instalment loans reviewed. In addition, the table includes the percentage of households within each income level according to the 1990 census data. The analysis only includes the loans which were originated within the assessment area.

SAMPLED RESIDENTIAL REAL ESTATE LOANS					
INCOME LEVEL	PERCENT OF HOUSEHOLDS	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	23%	7	50%	292,600	34%
Moderate	16%	2	14%	93,300	11%
Middle	19%	1	7%	111,750	13%
Upper	42%	4	29%	354,302	42%
TOTALS	100%	14	100%	851,952	100%

SAMPLED CONSUMER INSTALMENT LOANS					
INCOME LEVEL	PERCENT OF POPULATION	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	23%	15	38%	64,554	26%
Moderate	16%	14	35%	82,822	33%
Middle	19%	5	12%	9,100	4%
Upper	42%	6	15%	95,500	37%
TOTALS	100%	40	100%	251,976	100%

The following two tables illustrate a satisfactory performance with regard to lending to businesses and farms of different sizes. All the business and farm loans funded within the assessment area were funded to companies and farms that had less than \$500,000 in gross business revenues. This demonstrates that the bank does a good job of lending to small business and small farms within the assessment area.

Distribution by Gross Revenues of All Small-Business Loans

Made Within the Assessment Area

TABLE VI	UP TO \$250,000	\$250,001 TO \$500,000	\$500,001 TO \$750,000	\$750,001 TO \$1,000,000	OVER \$1,000,000
Number of Small-Business Loans	28 loans = 90%	3 loans = 10%	0 loans = 0 %	0 loans = 0 %	0 loans = 0 %
Dollar Volume of Small-Business Loans	\$639,219 = 93%	\$50,243 = 7%	N/A	N/A	N/A

**Distribution by Gross Revenues of All Small-Farm Loans
Made Within the Assessment Area**

TABLE VI	UP TO \$250,000	\$250,001 TO \$500,000	\$500,001 TO \$750,000	\$750,001 TO \$1,000,000	OVER \$1,000,000
Number of Small-Business Loans	31 loans = 89%	4 loans = 11%	0 loans = 0 %	0 loans = 0 %	0 loans = 0 %
Dollar Volume of Small-Business Loans	\$441,394 = 92%	\$38,660 = 8%	N/A	N/A	N/A

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank has achieved an adequate dispersion of loans within the assessment area. This dispersion is presented in the following tables which includes the percent of households living in the geographies according to the 1990 Census. No loans were funded in the low-income geographies; however, these census tracts are all located in or around the campus of Purdue University. Most of the individuals living in these areas are students with limited borrowing needs and capacities.

GEOGRAPHIC DISTRIBUTION OF SAMPLED REAL ESTATE LOANS					
INCOME LEVEL	PERCENT OF HOUSEHOLDS	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	7%	0	NA	0	NA
Moderate	19%	1	7%	7,000	1%
Middle	55%	12	86%	837,952	98%
Upper	19%	1	7%	7,000	1%
TOTALS	100%	14	100%	851,952	100%

GEOGRAPHIC DISTRIBUTION OF SAMPLED INSTALMENT LOANS					
INCOME LEVEL	PERCENT OF HOUSEHOLDS	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	7%	0	NA	0	NA
Moderate	19%	3	8%	19,714	8%
Middle	55%	36	90%	229,262	91%
Upper	19%	1	2%	3,000	1%
TOTALS	100%	40	100%	251,976	100%

GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS					
INCOME LEVEL	PERCENT OF HOUSEHOLDS	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	7%	0	NA	0	NA
Moderate	19%	4	13%	217,500	32%
Middle	55%	27	87%	471,962	68%
Upper	19%	0	NA	0	NA
TOTALS	100%	31	100%	689,462	100%

GEOGRAPHIC DISTRIBUTION OF SMALL FARM LOANS					
INCOME LEVEL	PERCENT OF HOUSEHOLDS	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	7%	0	NA	0	NA
Moderate	19%	0	NA	0	NA
Middle	55%	28	80%	423,554	88%
Upper	19%	7	20%	56,500	12%
TOTALS	100%	35	100%	480,054	100%

RESPONSE TO COMPLAINTS

Regarding its performance under the Community Reinvestment Act (CRA), the bank has not received any CRA-related complaints since the prior performance evaluation.

ANTIDISCRIMINATION LAWS

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.

Recent loan originated and rejected credit applications were reviewed to ascertain compliance with applicable fair housing and fair lending laws and regulations. This evaluation did not identify any acts, policies or practices that are inconsistent with the substantive provisions of these laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.