

PUBLIC DISCLOSURE

December 14, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Southern Heritage Bank
Certificate Number: 34593**

**3461 Atlanta Highway
Flowery Branch, Georgia 30542**

**Federal Deposit Insurance Corporation
One Atlantic Center, Suite 1500
1201 West Peachtree Street, N.E.
Atlanta, Georgia 30309-3415**

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 **Southern Heritage Bank, Flowery Branch, Georgia**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **December 14, 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.

A review of the bank's CRA performance reflects a satisfactory record of providing for the credit needs of the community. The bank's average net loan-to-deposit ratio of 48.13 percent is evidence of the fact that the bank is reinvesting a reasonable amount of its deposits through extensions of credit given the length of time the bank has been open. The bank offers a variety of lending products suitable for most segments of the community, but primarily focuses on consumer lending when looking at the number of loans the bank has extended. A review of the bank's consumer lending activity revealed that a majority of loans were extended within the assessment area. Additionally, the bank has extended a reasonable amount of credit to low- and moderate-income borrowers when compared to the percentage of these type families in the assessment area. The bank has not received any CRA-related complaints.

DESCRIPTION OF INSTITUTION

Southern Heritage Bank opened for business on January 4, 1999. The bank provides for the credit needs of its assessment area consistent with its size, financial capacity, location, and local economic conditions.

The bank is headquartered in Flowery Branch, Georgia, which is in Hall County. The bank's office is reasonably accessible to most segments of its assessment area. The bank offers a variety of credit products to meet the credit needs of its assessment area including construction, consumer, commercial, and residential real estate loans. The bank has an automated teller machine (ATM) at its main office and also has a cash-dispensing machine at a convenience store in Hall County. The bank is wholly owned by Southern Heritage Bancorp, Inc., Flowery Branch, Georgia, a one-bank holding company.

As of September 30, 1999, the bank had total assets of \$28,112,000, total deposits of \$20,630,000, and gross loans of \$13,749,000. The bank primarily makes consumer loans when considering the number and dollar amount of loans outstanding. Refer to the table below for a complete breakdown by dollar amount of the bank's loan portfolio as of September 30, 1999.

| LOAN TYPE | PERCENT OF AVERAGE GROSS LOANS |
|----------------------------|--------------------------------|
| Real Estate Loans: | |
| Construction & Development | 25.88 |
| 1 - 4 Family Residential | 6.74 |
| Home Equity | 7.40 |
| Farmland | 0.00 |
| Multi-family | 0.00 |
| Non-farm Non-residential | 0.91 |
| Agriculture | 0.00 |
| Commercial & Industrial | 28.49 |
| Individual | 30.58 |
| Credit Cards | 0.00 |
| Other | 0.00 |
| TOTAL | 100.00 |

DESCRIPTION OF INSTITUTION (continued)

The bank originated approximately 526 consumer-related loans totaling \$6,172,695 between January 4, 1999, and December 14, 1999. The bank's lending performance is based on a sample of these loans.

DESCRIPTION OF ASSESSMENT AREA

The bank has defined Hall County, Georgia, as its assessment area. Hall County is comprised of 16 populated Block Numbering Areas (BNAs). Five (32 percent) of the BNAs are middle-income and eleven (68 percent) are upper-income. The county is not located in a Metropolitan Statistical Area (MSA); therefore, the income levels of census tracts are based on percentages of the 1990 statewide non-metropolitan median family income for Georgia of \$26,926. Also, the income levels of families are based on percentages of the 1999 statewide non-metropolitan median family income for Georgia of \$37,500. See the tables below for details.

| INCOME LEVEL | % OF MEDIAN FAMILY INCOME | INCOME RANGE FOR FAMILIES | INCOME RANGE FOR CENSUS TRACTS |
|-----------------|---------------------------|--------------------------------|--------------------------------|
| Low-Income | 0% to less than 50% | \$0 to less than \$18,750 | \$0 to less than \$13,463 |
| Moderate-Income | 50% to less than 80% | \$18,750 to less than \$30,000 | \$13,463 to less than \$21,541 |
| Middle-Income | 80% to less than 120% | \$30,000 to less than \$45,000 | \$21,541 to less than \$32,311 |
| Upper-Income | 120% and over | \$45,000 and over | \$32,311 and over |

The bank's assessment area has a total population of 95,428, total households of 34,650, and total families of 26,695, based on 1990 U.S. Census Bureau data. According to the 1990 data, there are 38,315 housing units in the assessment area of which 24,097 (63 percent) are owner-occupied, 10,624 (28 percent) are renter-occupied, and 3,594 (9 percent) are vacant.

The bank's assessment area includes the following: 27,593 (72 percent) one-to-four family units; 2,901 (8 percent) five or more family units; 7,621 (20 percent) mobile homes; and 200 (1 percent) other units. The following table is a breakdown of the 26,695 families who reside in the assessment area.

DESCRIPTION OF ASSESSMENT AREA (continued)

| Income Level of Family | Number of Families | Percent of Families |
|-------------------------------|---------------------------|----------------------------|
| Low-income | 3,549 | 13% |
| Moderate-income | 3,416 | 13% |
| Middle-income | 5,437 | 20% |
| Upper-income | 14,293 | 54% |
| Total | 26,695 | 100% |

Of the 3,549 low-income families in the assessment area, 2,126 (60 percent) are below the poverty level. According to the 1990 labor summary, the unemployment rate is 6.4 percent in the middle-income BNAs and 3.5 percent in the upper-income BNAs in Hall County. The top three employers in Hall County based on the number of employees are the following: Northeast Georgia Medical Center, Gainesville, Georgia; Conagra Poultry Company, Gainesville, Georgia; and Fieldale Farms Corporation, Murrayville, Georgia.

There are several institutions which are headquartered in the bank's assessment area with which it must compete. These institutions consist of Gainesville Bank & Trust, Gainesville, Georgia; Georgia First Bank, N.A., Gainesville, Georgia; and Lanier National Bank, Gainesville, Georgia. In addition, there are numerous branches of other non-local institutions in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average net loan-to-deposit ratio meets standards for satisfactory performance.

The bank's average net loan-to-deposit ratio, calculated using the three quarter-end ratios since the bank's inception, is 48.13 percent. As of September 30, 1999, the bank's net loan-to-deposit ratio had reached 65.61 percent. Due to the bank's asset size and de novo status, there are no local institutions considered comparable to the subject bank. The bank's average net loan-to-deposit ratio is considered reasonable given the length of time the bank has been in business.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued)

Lending Inside the Assessment Area

The bank=s lending inside its assessment area meets standards for satisfactory performance.

The bank extends a majority of its loans inside its assessment area. A review of 86 consumer-related loans totaling \$1,173,310 revealed that 72 loans (84 percent) totaling \$1,009,635 (86 percent) were made inside the assessment area. Refer to the table below for details.

| CONSUMER-RELATED LOANS | | | | |
|------------------------------------|------------------------|-----------------------------------|-------------------------------|--|
| | Number of Loans | Percent of Number of Loans | Dollar Volume of Loans | Percent of Dollar Volume of Loans |
| Inside the assessment area | 72 | 84% | \$1,009,635 | 86% |
| Outside the assessment area | 14 | 16% | \$ 163,675 | 14% |
| Total | 86 | 100% | \$1,173,310 | 100% |

Lending to Borrowers of Different Incomes

The bank=s lending to borrowers of different incomes meets standards for satisfactory performance.

As the following table reflects, the bank=s level of lending to low- and moderate-income borrowers inside the assessment area exceeds the percentage of these types of families by ten percent when looking at the number of loans extended. When looking at the dollar volume of loans extended, the bank=s level of lending to low- and moderate-income borrowers is two percent less than these types of families in the assessment area. The bank=s level of lending to low- and moderate-income individuals appears reasonable when compared to the composition of families of the various income levels in the assessment area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA
(continued)**

Lending to Borrowers of Different Incomes (continued)

| CONSUMER-RELATED LOANS | | | | | |
|-----------------------------------|---|------------------------|-----------------------------------|-------------------------------|--|
| Median Family Income Level | Percent of Total Families in Assessment Area | Number of loans | Percent of Number of Loans | Dollar Volume of Loans | Percent of Dollar Volume of Loans |
| Low | 13% | 8 | 11% | \$ 73,212 | 7% |
| Moderate | 13% | 18 | 25% | \$ 172,710 | 17% |
| Middle | 20% | 18 | 25% | \$ 180,213 | 18% |
| Upper | 54% | 28 | 39% | \$ 583,500 | 58% |
| Total | 100% | 72 | 100% | \$1,009,635 | 100% |

Geographic Distribution

Since all of the BNAs in the bank's assessment area are either middle- or upper-income, a geographic distribution analysis was not performed.

Response to Complaints

The bank has not received any CRA-related complaints since its inception on January 4, 1999.

Compliance with Anti-discrimination Laws and Regulations

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