

PUBLIC DISCLOSURE

December 2, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Bank
Certificate Number: 18463

695 Marion Boulevard
Marion, Iowa 52302

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

This document is an evaluation of this 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. 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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INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Heritage Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize the institution's performance:

- The loan-to-deposit (LTD) ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans are in the institution's assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different incomes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the CRA rating.

DESCRIPTION OF INSTITUTION

Heritage Bank is wholly-owned by one-bank holding company Delhi Bancshares, Inc., of Marion. Through common ownership, the institution is affiliated with several non-banking entities. The bank received a Satisfactory rating at its previous FDIC CRA Performance Evaluation dated February 3, 2014, based upon Interagency Small Institution Examination Procedures.

The institution operates from its main office in Marion, as well as two branch offices in Hiawatha and Delhi, Iowa. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation. Full-service automated teller machines are located at each of the institution's offices. Cash-dispensing automated teller machines are located at two local grocery stores and an assisted living facility near the Marion and Hiawatha locations.

Various loan products are offered including commercial, residential, agricultural, and consumer loans. Additionally, the bank has the ability to assist with special financing alternatives through Farm Service Agency and Small Business Administration programs, first-time homebuyer programs, and programs that assist qualified applicants to purchase and/or rehabilitate residential real estate with forgivable grants. Secondary market financing options are offered for qualifying home mortgage applicants. Heritage Bank provides a variety of deposit-related products that include checking, savings, certificates of deposit, and Individual Retirement accounts. Alternative

banking products or services include debit cards, direct deposit, online and mobile banking, bill payment, bank by mail, and night deposit facilities at each office.

Assets totaled approximately \$35.9 million as of September 30, 2019, representing a decrease of 0.8 percent since the December 31, 2013, Consolidated Reports of Condition and Income (Call Report). Total deposits equaled approximately \$31.3 million, representing a 1.1 percent increase, and total loans were approximately \$18.9 million, representing an increase of 24.1 percent during the same period. Specifically, commercial loans increased 13.5 percent; agricultural loans increased 36.2 percent, and residential real estate loans increased by 38.0 percent. Management attributed the increase in the loan portfolio primarily to organic growth and increased farm operating expenses. The composition of the loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 9/30/2019		
Loan Category	\$(000s)	%
Construction and Land Development	364	1.9
Secured by Farmland	1,797	9.5
Secured by 1-4 Family Residential Properties	7,286	38.6
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	4,405	23.3
Total Real Estate Loans	13,852	73.3
Commercial and Industrial Loans	2,219	11.8
Agricultural Loans	1,556	8.2
Consumer Loans	811	4.3
Other Loans	450	2.4
Less: Unearned Income	0	0.0
Total Loans	18,888	100.0
<i>Source: Call Report</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Heritage Bank has defined two separate assessment areas: the Linn County Assessment Area and the Delaware County Assessment Area. Each assessment area is described in greater detail below. The boundaries of the two assessment areas have not changed since the prior CRA evaluation.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated February 3, 2014, to the current evaluation date of December 2, 2019. Examiners used the Interagency Small Institution Examination Procedures to evaluate Heritage Bank’s CRA performance.

Examiners conducted full-scope reviews in both of the bank’s assessment areas to evaluate performance. The following table reflects the distribution of loans, deposits, and office locations in each assessment area. Considering the distribution of loans, deposits, and number of offices in each assessment area, performance in the Linn County Assessment Area received greater weight in this evaluation.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Linn County	13,721	74.5	12,574	39.4	2	66.7
Delaware County	4,706	25.5	19,357	60.6	1	33.3
Total	18,427	100.0	31,931	100.0	3	100.0

Source: Bank Data; FDIC Summary of Deposits (6/30/2019)

Activities Reviewed

Based on Call Report information, the number and dollar volume of loans originated during the evaluation period, and the bank’s business strategy, examiners determined that the major product lines are home mortgage, small business, and small farm loans. Residential real estate loans make up the largest loan category of the loan portfolio, representing 38.6 percent of total loans according to the September 30, 2019, Call Report. Commercial loans, including commercial real estate loans, are the bank’s second largest loan category, representing 35.1 percent of total loans. The third most significant category consists of agricultural loans, including loans secured by farmland, at 17.7 percent of total loans.

Examiners reviewed all small business, home mortgage, and small farm loans from January 1, 2018, through December 31, 2018. Specifically, the bank originated 21 small business loans totaling approximately \$2.4 million, 20 home mortgage loans totaling approximately \$1.3 million, and 16 small farm loans totaling approximately \$2.0 million in 2018. For the Assessment Area Concentration performance criteria, examiners analyzed the universes of home mortgage, small business, and small farm loans originated in 2018. The Geographic Distribution performance criterion was analyzed only in the Linn County Assessment Area, as the Delaware County Assessment Area has no low- or moderate-income census tracts. For the Geographic Distribution and Borrower Profile performance criterion, examiners analyzed all home mortgage, small business, and small farm loans originated inside the assessment area, as appropriate.

When arriving at small farm and small business conclusions, 2018 D&B Data provided a standard of comparison. For home mortgage conclusions, 2015 U.S Census Bureau’s American Community Survey (ACS) data provided a standard of comparison. Examiners obtained the data necessary for this evaluation from the automated loan download, other bank records, individual customer loan files, and interviews with bank management.

Management stated the institution’s lending focus is commercial. Although residential real estate is a larger percentage of the total loan portfolio, many of the home mortgage loans are made for a commercial purpose. Examiners considered loan portfolio percentages, business focus, the low level of agricultural lending in the Linn County Assessment Area, and the low level of residential real estate and commercial lending in the Delaware County Assessment Area when determining product

reviews. Therefore, examiners focused on small business and home mortgage lending in the Linn County Assessment Area and small farm lending in the Delaware County Assessment Area. Small business and home mortgage lending received equal weight when drawing conclusions in the Linn County Assessment Area.

Examiners reviewed the number and dollar volume of small business, small farm, and home mortgage loans. While the number and dollar volume of loans are presented, examiners emphasized performance by the number of loans, which is a better indicator of the number of businesses, farms, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Heritage Bank demonstrated reasonable performance under the Lending Test. The institution’s reasonable lending performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile criteria support this conclusion.

Loan-to-Deposit Ratio

The institution’s LTD ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s net LTD ratio, calculated from Call Report data, averaged 58.8 percent over the 23 calendar quarters from March 31, 2014, to September 30, 2019. The net LTD ratio ranged from a low of 46.9 percent as of September 30, 2014, to a high of 66.5 percent as of September 30, 2017. As of September 30, 2019, the institution’s net LTD ratio was 59.9 percent.

Examiners compared the institution’s average net LTD ratio to four similarly-situated institutions to help evaluate Heritage Bank’s performance. Similarly-situated institutions were selected based on their size, geographic location, and lending focus. Although Heritage Bank’s average net LTD ratio is slightly lower than those of similarly-situated institutions, there is not a wide disparity between the lowest and highest average net LTD ratio. See the following table.

LTD Ratio Comparison		
Bank	Total Assets as of 9/30/2019 (\$000s)	Average Net LTD Ratio (%)
Heritage Bank, Marion, IA	35,874	58.8
Center Point Bank and Trust, Center Point, IA	34,095	69.5
Palo Savings Bank, Palo, IA	38,634	61.4
The Exchange State Bank, Springville, IA	43,888	61.6
Walker State Bank, Walker, IA	42,974	69.5
<i>Source: Call Reports 3/31/2014 – 9/30/2019</i>		

Assessment Area Concentration

Heritage Bank made a majority of its small business, small farm, and home mortgage loans, by number and dollar amount, within its assessment areas. These results reflect management’s commitment to lend within the local communities. See the following table.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	17	81.0	4	19.0	21	2,152	89.1	264	10.9	2,416
Home Mortgage	13	65.0	7	35.0	20	1,116	85.3	192	14.7	1,308
Small Farm	13	81.3	3	18.8	16	1,715	87.3	250	12.7	1,965

Source: Bank Data. Due to rounding, totals may not equal 100.0

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. Reasonable performance for home mortgage lending within the Linn County Assessment Area primarily supports this conclusion. Examiners focused on the percentage, by number, of loans made in the assessment area’s moderate-income census tracts. Because the Delaware County Assessment Area does not include any low- or moderate-income geographies, an analysis was not performed as it would not result in meaningful conclusions. Refer to comments under the Linn County Assessment Area for more specific analysis.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different incomes. Examiners focused on the percentage by number of loans to businesses and farms with gross annual revenues of \$1 million or less, and low- and moderate-income borrowers, located inside the assessment areas. The bank’s overall reasonable lending performance in both assessment areas supports this conclusion. Refer to comments under each separately analyzed assessment area for a more specific analysis.

Response to Complaints

The institution has not received any CRA-related complaints since the prior evaluation; therefore, this criterion did not affect the CRA rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution’s overall CRA rating.

LINN COUNTY ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN LINN COUNTY ASSESSMENT AREA

The Linn County Assessment Area is part of the Cedar Rapids, Iowa metropolitan statistical area (Cedar Rapids MSA). It is comprised of census tracts 1.00, 2.01, 2.03, 2.05 – 2.07, 3.0 – 8.0, 9.01, 9.02, 10.01, 11.01, 11.02, and 12 – 18 in Linn County.

Economic and Demographic Data

According to ACS data, the Linn County Assessment Area is comprised of 5 moderate-, 15 middle-, and 4 upper-income census tracts. This represents a change from 2010 U.S. Census data, when the assessment area was comprised of 6 moderate-, 11 middle-, and 7 upper-income census tracts. The Marion branch is located in a middle-income census tract, and the Hiawatha branch is located in an upper-income census tract. The following table illustrates select demographic characteristics of the Linn County Assessment Area.

Demographic Information of the Assessment Area					
Assessment Area: Linn County					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	24	0.0	20.8	62.5	16.7
Population by Geography	122,385	0.0	13.9	64.7	21.4
Housing Units by Geography	53,537	0.0	15.1	66.6	18.3
Owner-Occupied Units by Geography	37,650	0.0	12.1	64.8	23.0
Occupied Rental Units by Geography	12,446	0.0	22.4	71.9	5.7
Vacant Units by Geography	3,441	0.0	21.5	67.0	11.5
Businesses by Geography	7,826	0.0	12.4	63.0	24.6
Farms by Geography	230	0.0	13.0	63.0	23.9
Family Distribution by Income Level	32,006	16.5	17.1	23.9	42.5
Household Distribution by Income Level	50,096	19.9	16.0	18.7	45.4
Median Family Income for Cedar Rapids MSA	\$75,812	Median Housing Value			\$153,790
Families Below Poverty Level	5.3%	Median Gross Rent			\$711
<i>Source: 2015 ACS Census; 2018 D&B Data; Due to rounding, totals may not equal 100.0</i>					

According to 2018 D&B data, service industries represent the largest portion of businesses at 45.1 percent; followed by retail trade at 13.0 percent; finance, insurance, and real estate at 11.4 percent; and non-classifiable establishments at 9.6 percent. In addition, 68.5 percent of assessment area businesses have four or fewer employees, and 88.2 percent operate from a single location.

The FFIEC-estimated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the Cedar Rapids MSA for 2018 are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2018 (\$80,800)	<\$40,400	\$40,400 to <\$64,640	\$64,640 to <\$96,960	≥\$96,960
<i>Source: FFIEC</i>				

The unemployment rate in Linn County has remained relatively low, reflecting a stable economy. According to Iowa Workforce Development, as of October 2019, Linn County had an unemployment rate of 2.5 percent, an increase from the 2.1 rate of October 2018. The State of Iowa reported an unemployment rate of 2.6 percent in October 2019, which is a slight increase from the 2.4 percent rate reported in October 2018.

Competition

The Linn County Assessment Area is very competitive regarding the market for financial services. Call Report data as of June 2018 indicates 20 insured institutions operating from 35 locations within the assessment area. These institutions range from small community banks to larger financial institutions operating branch locations in the area. Heritage Bank ranks 18th with 0.4 percent deposit market share.

Community Contact

As part of the evaluation process, examiners contact third parties that are active in the community to assist in identifying the credit needs and economic conditions of the assessment area. This information helps determine whether local financial institutions are responsive to community credit needs and provides context regarding available opportunities for area financial institutions. Examiners reviewed an interview with a representative of an economic development organization operating in the Linn County Assessment Area. Examiners concentrated on the community contact's observations regarding commercial and residential real estate activities.

The contact stated that the commercial development and industrial sectors are doing well and growing; however, due to low unemployment in the area, there is a need for more workers. Pay and wages are not increasing at the rate of inflation, so some workers are struggling in lower-paying jobs that offer few or no benefits. Small businesses in rural areas are struggling, as shopping is not as localized as it had been in the past. The housing market is strong, but housing preferences are changing due to demands of younger buyers and builders are trying to change to meet their needs. The contact stated there is a need for affordable housing, especially in rural areas where lower-wage earners have trouble finding housing at a cost within their resources.

Credit Needs

Considering information from the community contact, bank management, demographic and economic data, and Call Report data, examiners determined that small business and home mortgage lending, as well as affordable housing loans represent the primary credit needs in the Linn County Assessment Area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN LINN COUNTY ASSESSMENT AREA

LENDING TEST

Heritage Bank demonstrated reasonable performance under the Lending Test in the Linn County Assessment Area. Performance under the Geographic Distribution and Borrower Profile criterions support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The reasonable performance in home mortgage lending primarily supports this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. The percentage of small business loans originated in moderate-income census tracts exceeds demographic data.

Geographic Distribution of Small Business Loans					
Assessment Area: Linn County					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	12.4	4	23.5	535	24.9
Middle	63.0	10	58.8	1,152	53.5
Upper	24.6	3	17.6	465	21.6
Total	100.0	17	100.0	2,152	100.0
<i>Source: 2018 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. Although the percentage of loans originated in moderate-income census tracts is below ACS data, other contextual information was considered to arrive at this conclusion. The presence of 20 financial institutions operating from 35 separate locations within the assessment area, as well as Heritage Bank’s low market share amongst those financial institutions, indicates a high level of competition in the assessment area. In addition, none of the bank’s branches are located in the moderate-income census tracts.

Geographic Distribution of Home Mortgage Loans					
Assessment Area: Linn County					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Moderate	12.1	1	7.7	98	8.8
Middle	64.8	5	38.5	447	40.1
Upper	23.0	7	53.8	571	51.2
Total	100.0	13	100.0	1,116	100.0

Source: 2015 ACS Census; Bank Data. Due to rounding, totals may not equal 100.0

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses of different revenue sizes and individuals of different income levels. Heritage Bank’s reasonable small business and home mortgage performance support this conclusion.

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different revenue sizes. Although the percentage of lending to businesses with gross annual revenues equal to, or less than \$1 million is below D&B data, other contextual information was considered to arrive at this conclusion. Of the eight loans originated to businesses with gross annual revenues greater than \$1 million, seven were made to three businesses that have grown into this revenue level since starting their relationship with the institution. Also, the assessment area’s competitive nature must be taken into account. Although Heritage Bank does not report its small business data reporter, the review of the most recently available aggregate data shows that there are 59 lenders that reported 2,785 small business loan originations throughout Linn County in 2017. In addition, as previously mentioned, Heritage Bank offers Small Business Administration lending, and currently has a number of these loans on its loan roster.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Linn County					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.9	9	52.9	1,611	74.9
>1,000,000	6.4	8	47.1	541	25.1
Revenue Not Available	10.7	0	0.0	0	0.0
Total	100.0	17	100.0	2,152	100.0

Source: 2018 D&B Data; Bank Data.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration amount individuals of different income levels, including low- and moderate-income borrowers. The bank’s performance closely mirrors that of the ACS data.

Distribution of Home Mortgage Loans by Borrower Income Level					
Assessment Area: Linn County					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	16.5	2	15.4	105	9.4
Moderate	17.1	2	15.4	129	11.6
Middle	23.9	0	0.0	0	0.0
Upper	42.5	3	23.1	92	8.2
Not Available	0.0	6	46.2	790	70.8
Total	100.0	13	100.0	1,116	100.0
<i>Source: 2015 ACS Census; Bank Data. Due to rounding, totals may not equal 100.0</i>					

DELAWARE COUNTY ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN DELAWARE COUNTY ASSESSMENT AREA

The Delaware County Assessment Area is comprised of the entirety of Delaware County, located in the nonmetropolitan area of Iowa.

Economic and Demographic Data

According to 2015 ACS data, the Delaware County Assessment Area is comprised of three middle- and one upper-income census tracts. This represents a change from 2010 U.S. Census data, when the assessment area was comprised of four middle-income census tracts. Heritage Bank’s Delhi branch is located in a middle-income census tract. The following table illustrates select demographic characteristics of the Delaware County Assessment Area.

Demographic Information of the Assessment Area					
Assessment Area: Delaware County					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	4	0.0	0.0	75.0	25.0
Population by Geography	17,507	0.0	0.0	83.3	16.7
Housing Units by Geography	8,031	0.0	0.0	83.8	16.2
Owner-Occupied Units by Geography	5,579	0.0	0.0	81.9	18.1
Occupied Rental Units by Geography	1,394	0.0	0.0	85.8	14.2
Vacant Units by Geography	1,058	0.0	0.0	91.1	8.9
Businesses by Geography	1,234	0.0	0.0	83.4	16.6
Farms by Geography	361	0.0	0.0	79.8	20.2
Family Distribution by Income Level	5,002	16.8	14.6	22.6	46.0
Household Distribution by Income Level	6,973	18.0	14.2	19.3	48.5
Median Family Income for Nonmetropolitan Iowa	\$61,934	Median Housing Value			\$130,422
Families Below Poverty Level	6.4%	Median Gross Rent			\$581

Source: 2015 ACS Census; 2018 D&B Data.

The U.S. Department of Agriculture’s 2017 Census of Agriculture indicates that the number of farms in Delaware County has decreased by 4.0 percent, while the average size of farms in the county has increased by 4.0 percent, showing continued consolidation of farm operations in Delaware County.

Competition

The Delaware County Assessment Area is moderately competitive regarding the market for financial services. Deposit Market Share Reports as of June 2018 reflect 6 insured institutions operating from 11 locations within the assessment area. These institutions are small community banks operating branch locations in the area. Heritage Bank ranks 6th with 2.7 percent of the deposit market share.

Community Contacts

Examiners conducted a community contact with a representative of an economic development organization operating in the assessment area, concentrating on the contact’s observations regarding agricultural activities. The contact stated that the major sources of employment in the assessment area are agriculture and manufacturing. Approximately 25.0 percent of Iowa’s beef and dairy industry is in this area. Dairy farmers are struggling because margins are tight and financial institutions have to be stringent about underwriting criteria. Grain farmers are also under stress due to falling commodity prices and the need to borrow for operating expenses. Operations that carried low debt into the current economic conditions are faring well; those that already had debt are not faring as well. Consolidation of farms is continuing, and much smaller farms, such as wineries and vegetable farms, are growing. Small farms with a moderate amount of acreage are disappearing, due to consolidation and economic pressures.

Credit Needs

Considering information from the community contact, bank management, demographic and economic data, and Call Report data, examiners determined that small farm loans, especially to borrowers with a moderate amount of acreage and/or dairy operations, represents the primary credit need in the Delaware County Assessment Area.

**CONCLUSIONS ON PERFORMANCE CRITERIA IN
DELAWARE COUNTY ASSESSMENT AREA**

LENDING TEST

Heritage Bank demonstrated reasonable performance under the Lending Test in the Delaware County Assessment Area. Performance under the Borrower Profile criterion supports this conclusion.

Geographic Distribution

The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms of different revenue sizes in the assessment area.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different revenue sizes in the assessment area. Although the percentage of lending to farms with gross annual revenues equal to, or less than \$1 million is below the D&B data, other contextual information was considered to arrive at this conclusion. The two loans originated to farms with gross annual revenues greater than \$1 million were made to the same borrower. This borrower has grown into this revenue level since starting their relationship with the institution.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Delaware County					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.2	11	84.6	895	52.2
>1,000,000	0.6	2	15.4	820	47.8
Revenue Not Available	0.3	0	0.0	0	0.0
Total	100.0	13	100.0	1,715	100.0
<i>Source: 2018 D&B Data; Bank Data.</i>					

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's LTD ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
- 4) The geographic distribution of the bank's loans; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent MSAs or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm

loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in

two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.