

PUBLIC DISCLOSURE

November 1, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Heritage Bank
RSSD# 618647

801 South Fremont
Shenandoah, Iowa 51601

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, Illinois 60604-1413

NOTE: This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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BANK'S CRA RATING

First Heritage Bank is rated Satisfactory.

First Heritage Bank is meeting the credit needs of its assessment area based on an analysis of the bank's lending activities. The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the assessment area credit needs. A majority of loans are originated in the assessment area. The geographic distribution of loans reflects excellent dispersion throughout the assessment area, and lending activity reflects reasonable penetration among borrowers of different income levels, including low- and moderate-income, and to businesses and farms of different sizes. There were no CRA-related complaints received by the institution or the Reserve Bank since the previous evaluation.

SCOPE OF EXAMINATION

First Heritage Bank's performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC) Interagency CRA Examination Procedures for Small Institutions. Performance was evaluated in the context of information about the institution and its assessment area, including the bank's asset size, financial condition, competition, and economic and demographic characteristics.

The evaluation included a full-scope review of the bank's sole assessment area, which consists of the entirety of Page County and one census tract in Fremont County. Given the bank's loan portfolio composition, the products reviewed include residential real estate, small farm, and small business loans.

Performance in the assessment area was evaluated using streamlined assessment method for small banks based on the following performance criteria:

- ***Loan-to-Deposit Ratio*** – A 17-quarter average loan-to-deposit ratio was calculated for the bank and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – A sample of the bank's home mortgage, small business, and small farm loans originated from January 1, 2020 to December 31, 2020 were reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – A sample of the bank's home mortgage, small business, and small farm loans originated in the assessment area from January 1, 2020 to December 31, 2020, were analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as moderate-income.

- ***Lending to Borrowers of Different Income and to Businesses and Farms of Different Sizes*** – A sample of the bank’s home mortgage, small business, and small farm loans originated in the assessment area, from January 1, 2020 to December 31, 2020, were reviewed to determine the distribution among borrowers of different income levels, particularly those considered low- or moderate-income, and to businesses and farms with different revenue sizes.
- ***Response to Substantiated Complaints*** – Complaints were reviewed to determine if any were related to the bank’s record of helping to meet community credit needs, and its responses to any received were evaluated for appropriateness. Neither First Heritage Bank nor this Reserve Bank received any CRA-related complaints since the previous examination.

In addition, two community representatives were contacted in connection with this examination to provide information regarding local economic and socio-economic conditions in the assessment area. The following types of organizations were contacted: economic development and affordable housing.

DESCRIPTION OF INSTITUTION

First Heritage Bank, with total assets of \$54.9 million as of June 30, 2021, is a wholly owned subsidiary of First National Bancorp, a one bank holding company in Shenandoah, IA. The bank operates in Page County, IA, with its main office located in a moderate-income census tract in Shenandoah, IA, which includes an ATM and drive through facility. The bank also has a full-service branch located in a middle-income census tract in Farragut, IA, which does not include an ATM or drive through facility. The bank has not opened or closed any branch offices since the previous examination but did remove an ATM from its lone branch location.

First Heritage Bank serves its assessment area primarily as an agricultural, commercial, and residential real estate lender. Products are generally non-complex. Loan products include residential real estate, consumer installment, home equity lines of credit, commercial, and agricultural loans. Deposit products include traditional checking and savings accounts, certificates of deposit, money market deposit accounts, and negotiable order of withdrawal accounts.

According to the Federal Deposit Insurance Corporation’s (FDIC) Deposit Market Share data report from June 30, 2021, First Heritage Bank holds 5.5 percent of the deposits within Page and Fremont Counties. The bank is ranked sixth out of nine depository institutions in its market. Bank Iowa leads the market with 28.9 percent of deposits, followed by Great Western Bank at 17.7 percent, PCSB Bank at 16.8 percent, and The First National Bank in Creston at 10.3 percent. The remaining institutions each hold less than eight percent of the deposit market share in the assessment area.

Composition of Loan Portfolio As of June 30, 2021		
Loan Type	Dollar Volume (\$ in 000s)	% of Portfolio
Residential Real Estate	8,506	27.3
Commercial	12,947	41.6
Agricultural	8,473	27.2
Consumer	1,201	3.9
Other	21	0.1
Total	31,148	100.0

Note: Percentages may not total to 100.0 percent due to rounding.

There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

The bank was rated satisfactory under the CRA at its previous evaluation conducted on October 2, 2017.

DESCRIPTION OF ASSESSMENT AREA¹

First Heritage Bank’s non-metropolitan assessment area is located in southwestern Iowa and is comprised of Page County in its entirety and one census tract (9701.00) in Fremont County. The bank’s delineated assessment area is comprised of seven census tracts, one of which is moderate-income and the remaining six are middle-income tracts. The bank’s main office is in the lone moderate-income census tract in Shenandoah, Iowa and the sole branch is located in a middle-income census tract in Farragut, Iowa. There have been no changes to the assessment area’s census tract income designations since the previous examination and there are no distressed or underserved tracts in the assessment area.

The majority of the population in the assessment area consists of upper- and middle-income families, accounting for 61.2 percent of all families in the assessment area. Low- and moderate-income families represent 21.2 percent and 17.6 percent of the families in the assessment area, respectively. Small businesses with revenues of \$1.0 million or less comprise a significant portion of the total businesses in the assessment area at 90.6 percent. Further, small farms with revenues of \$1.0 million or less comprise the vast majority of total farms in the assessment area at 99.6 percent. Additional 2020 assessment area demographic information is presented in the following table.

¹ Census tract designations are based on American Community Survey income data. For years 2017 and after, the designations are based on 2011-2015 ACS data. For years 2016 and before, the designations are based on 2006-2010 ACS data. For examinations that include performance before and after 2017, both sets of data have been used to perform the analysis of bank activity in the respective timeframes.

Assessment Area: 2020 IA Non MSA									
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low -income	0	0.0	0	0.0	0	0.0	985	21.2	
Moderate-income	1	14.3	580	12.5	149	25.7	818	17.6	
Middle-income	6	85.7	4,069	87.5	315	7.7	1,047	22.5	
Upper-income	0	0.0	0	0.0	0	0.0	1,799	38.7	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	7	100.0	4,649	100.0	464	10.0	4,649	100.0	
	Housing Units by Tract	Housing Types by Tract							
		Owner-Occupied		Rental		Vacant			
		#	%	#	%	#	%	#	%
Low -income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	1,165	600	11.1	51.5	412	35.4	153	13.1	
Middle-income	7,055	4,829	88.9	68.4	1,401	19.9	825	11.7	
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0	
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0	
Total Assessment Area	8,220	5,429	100.0	66.0	1,813	22.1	978	11.9	
	Total Businesses Tract	Businesses by Tract & Revenue Size							
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
		#	%	#	%	#	%	#	%
Low -income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	124	14.7	112	14.7	12	20.3	0	0.0	
Middle-income	719	85.3	652	85.3	47	79.7	20	100.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	843	100.0	764	100.0	59	100.0	20	100.0	
	Percentage of Total Businesses:			90.6		7.0		2.4	
	Total Farms by Tract	Farms by Tract & Revenue Size							
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported			
		#	%	#	%	#	%	#	%
Low -income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	4	1.6	4	1.6	0	0.0	0	0.0	
Middle-income	241	98.4	240	98.4	1	100.0	0	0.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	245	100.0	244	100.0	1	100.0	0	0.0	
	Percentage of Total Farms:			99.6		0.4		0.0	

2020 FFIEC Census Data & 2020 Dun & Bradstreet information according to 2015 ACS

Note: Percentages may not add to 100.0 percent due to rounding

Population Change

As presented in the table below, the assessment area experienced a population decline of 2.6 percent, according to the 2011-2015 American Community Survey (ACS), which is below the population growth experienced by the state of Iowa of 1.6 percent from 2010 to 2015. Page County experienced an overall population decline of 1.7 percent since 2010, and Fremont County experienced a greater population decline (4.5 percent) during the same time period. Community representatives indicated the assessment area has had trouble retaining its population due to workers and young adults leaving the area for greater job opportunities in larger nearby cities, such as Des Moines, Iowa; Omaha, Nebraska; and Kansas City, Missouri. Despite the population decrease, the total number of home mortgage applications in the area has increased from 241 in 2014 to 512 in 2020, indicating that demand for housing has increased despite the overall decline in population.

Population Change			
Area	2010 Population	2015 Population	Percentage Change (%)
Assessment Area	23,373	22,766	-2.6
Fremont County, IA	7,441	7,106	-4.5
Page County, IA	15,932	15,660	-1.7
Iowa	3,046,355	3,093,526	1.6

*Source: 2010—U.S. Census Bureau: Decennial Census
2015—U.S. Census Bureau: American Community Survey*

Income Characteristics

The following table presents median family income (MFI) for families living in the assessment area, compared to Fremont County, Page County, and the state of Iowa. According to the 2011-2015 ACS, the assessment area MFI was \$61,651, which is lower than that in Fremont County (\$65,109) and the state of Iowa (\$67,466). However, the MFI of the assessment area is slightly above the Page County average of (\$60,519). The MFI within the assessment area grew by approximately 4.8 percent from 2010 to 2015, outpacing the MFI growth rates of Fremont County and the state of Iowa of approximately 0.3 percent and 0.2 percent, respectively. A community contact indicated that the MFI growth within the assessment area could be attributed to rising wages within the area, as unemployment remains low, and employers have been forced to increase wages to attract qualified workers.

Median Family Income Change 2010 and 2015			
Area	2010 Median Family Income (\$)	2015 Median Family Income (\$)	Percentage Change (%)
Assessment Area	58,854	61,651	4.8
Fremont County, IA	64,925	65,109	0.3
Page County, IA	57,487	60,519	5.3
Iowa	67,302	67,466	0.2
<i>Source: 2006-2010—U.S. Census Bureau: American Community Survey 2011-2015—U.S. Census Bureau: American Community Survey Median Family Incomes have been inflation-adjusted and are expressed in 2015 dollars.</i>			

Housing Characteristics

The bank’s assessment area includes 8,220 total housing units, of which 66.0 percent are owner-occupied. The vast majority of the assessment area’s housing stock is located in middle-income census tracts (88.9 percent), with the remaining 11.1 percent of owner-occupied housing located in the moderate-income census tract. Of the homes located in middle-income tracts, 68.4 percent are owner-occupied, suggesting prevalent home ownership among the predominantly middle-income assessment area. Home ownership is less prominent in the moderate-income tract (51.5 percent). Area representatives noted a need for more affordable housing options throughout the assessment area.

The table below presents the recent housing cost burden for individuals. The housing cost burden percentage represents the number of renters and homeowners whose housing cost equals 30.0 percent or more of total household income. The table compares the housing cost burden within the assessment area to Fremont County, Page County, and the state of Iowa. Renters across all income levels in the assessment area experience this burden at 34.0 percent, which is lower than the percentage of renters across the state of Iowa (38.0 percent). Homeowners within the assessment area experience housing cost burden at 12.0 percent, which is lower than that of state of Iowa (15.0 percent). A community representative indicated housing cost burden percentages may be lower than the state of Iowa due to rising incomes, as job availability within the assessment area is high and area employers have been forced to raise wages to attract workers.

Housing Cost Burden 2020						
Area	Cost Burden (\$) - Renters			Cost Burden (\$) - Owners		
	Low-income	Moderate-income	All Renters	Low-income	Moderate-income	All Owners
Assessment Area	64.0	11.0	34.0	48.0	11.0	12.0
Fremont County, IA	58.0	24.0	31.0	57.0	9.0	11.0
Page County, IA	66.0	4.0	36.0	45.0	12.0	13.0
Iowa	71.0	21.0	38.0	57.0	25.0	15.0

Cost Burden is housing cost that equals 30 percent or more of household income

Source: U.S. Department of Housing and Urban Development (HUD), 2013-2017 Comprehensive Housing Affordability Strategy

Employment Conditions

The table below shows unemployment statistics for the assessment area, Page and Fremont Counties, and the state of Iowa. The unemployment rate within the assessment area as well as Page and Fremont Counties has been lower than the state of Iowa each of the past three years, which supports the community representative’s indication that job availability within the assessment area has been on the rise. The increase in the unemployment rate within the assessment area in 2020 can be attributed to the COVID-19 pandemic. Community representatives indicated that the unemployment rate has continued to decline as more area workers have been returning to work.

Unemployment Rates (%)					
Area	2016	2017	2018	2019	2020
Assessment Area	4.3	3.4	2.3	2.6	4.3
Fremont County, IA	3.3	2.6	1.9	2.8	3.1
Page County, IA	5.0	3.9	2.6	2.6	5.0
Iowa	3.6	3.1	2.6	2.8	5.3

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

Community Representatives

Information from two community representatives was obtained to provide context to the assessment area’s banking needs and local economic conditions. The representatives provided information on housing and economic development within the assessment area. Both representatives indicated the area was experiencing economic growth prior to the COVID-19 pandemic, as local retail in particular was thriving. Further, manufacturing industries were growing as some local manufacturers, including Pella Windows and Lloyd Inc., a pharmaceutical company, were expanding their workforce. The representatives indicated that while the assessment area experienced an economic downturn due to the pandemic, many area small businesses were able to recover and are still operating.

Each representative discussed the need for more affordable housing options within the counties comprising the bank's assessment area, as the housing market continues to further tighten. It was noted that more housing options need to become available in order to attract potential new populations to fill available jobs within the area. Additionally, one representative noted that the cost of building has recently increased, and more investment is needed towards affordable housing projects. Despite the need for more affordable housing, both representatives stated that all local banks are eager to participate within the community and that banking needs are largely being met.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit (LTD) ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income levels and businesses of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the preceding standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions of the state demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.

LENDING TEST

First Heritage Bank's performance relative to the lending test is rated Satisfactory based on the following factors: The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs; a majority of loans were originated within the assessment area; geographic distribution reflects excellent dispersion throughout the assessment area; and lending activity reflects reasonable penetration among individuals of different income levels, including low- and moderate-income, and to businesses and farms of different sizes. Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous examination.

Loan-to-Deposit Ratio

First Heritage Bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment are credit needs. The table below shows the bank's 17-quarter average LTD ratio from June 30, 2017 to June 30, 2021 in comparison to local competitors. The LTD ratio exceeds all but two local competitors at 78.8 percent and shows improvement from the previous examination (67.8 percent).

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%)
	17 – Quarter Average
First Heritage Bank	78.8
Competitors	
Arbor Bank	98.9
Bank Iowa	81.0
Cornerstone Bank	70.7
First National Bank in Creston	78.6
Glenwood State Bank	39.0
PCSB Bank	70.2
Tri-Valley Bank	72.7

Assessment Area Concentration

A majority of the bank’s loans were originated in the assessment area. An analysis of each loan product originated during the January 1, 2020 through December 31, 2020 evaluation period determined 76.1 percent of home mortgage loans, 58.7 percent of small business loans, and 89.5 percent of small farm loans were originated within the delineated assessment area. The lower percentage of small business lending inside the assessment area is attributed to less demand for small business loans as well as competition, resulting in the bank’s involvement in participation lending outside the assessment area to increase loan volume. Across all loan products, the bank originated 73.0 percent of loans inside the assessment area, demonstrating the bank’s commitment to meeting the area credit needs.

Lending Inside and Outside the Assessment Area								
Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential Loans	35	76.1	3,543	61.3	11	23.9	2,233	38.7
Total Non-HMDA	35	76.1	3,543	61.3	11	23.9	2,233	38.7
Small Business	44	58.7	3,041	41.0	31	41.3	4,374	59.0
Total Small Bus. related	44	58.7	3,041	41.0	31	41.3	4,374	59.0
Small Farm	51	89.5	5,739	89.2	6	10.5	650	10.8
Total Small Farm related	51	89.5	5,739	89.2	6	10.5	650	10.8
TOTAL LOANS	130	73.0	11,963	62.2	48	27	7,256	37.8

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. The bank’s home mortgage, small business, and small farm loans originated during the January 1, 2020 through December 31, 2020 evaluation period were reviewed to determine the dispersion of

loans among assessment area geographies. The assessment area consists of seven census tracts, one is designated as moderate-income and six are designated middle-income.

A gap analysis was completed as part of the evaluation. During the sample period, First Heritage Bank originated home mortgage and small business loans within the moderate-income census tract. No small farm loans were originated in the moderate-income tract; however, only 1.6 percent of total farms are located in this tract. Considering the evaluation period, the bank’s size and complexity, and rural assessment area, the overall lending penetration throughout the assessment area is considered excellent.

Home Mortgage Loans

Home mortgage lending reflects excellent dispersion throughout the assessment area. The bank originated 20.0 percent of home mortgage loans to borrowers in the sole moderate-income census tract, which exceeds the percentage of owner-occupied units within the moderate-income census tract (11.1 percent). The majority of the bank’s home mortgage loans (80.0 percent) were originated in middle-income census tracts, which aligns with where the majority of owner-occupied housing units (88.9 percent) are located.

Geographic Distribution of Home Mortgage Loans						
<i>Assessment Area: 2020 IA Non MSA</i>						
	<i>Tract Income Levels</i>	<i>Bank & Demographic Comparison</i>				<i>Owner Occupied % of Units</i>
		<i>2020</i>				
		<i>Count Bank</i>		<i>Dollar Bank</i>		
		<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	
Totals	Low	0	0.0	0	0.0	0.0
	Moderate	7	20.0	1,280	36.1	11.1
	Middle	28	80.0	2,263	63.9	88.9
	Upper	0	0.0	0	0.0	0.0
	Unknown	0	0.0	0	0.0	0.0
	Total	35	100.0	3,543	100.0	100.0
2020 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Small Business Loans

Small business lending reflects excellent distribution throughout the assessment area. The bank originated 36.4 percent of small business loans in the moderate-income census tract, which significantly outpaces area demographics, as only 14.7 percent of total businesses in the assessment area are located in the moderate-income census tract. The bank originated 63.6 percent of its small business loans in middle-income tracts, which is below the percentage of total businesses located in those geographies (85.3 percent).

Geographic Distribution of Small Business Loans						
Assessment Area: 2020 IA Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				
		Count Bank		2020 Dollar Bank		Total Businesses
		#	%	\$ 000s	%	%
Small Business	Low	0	0.0	0	0.0	0.0
	Moderate	16	36.4	1,641	54.0	14.7
	Middle	28	63.6	1,400	46.0	85.3
	Upper	0	0.0	0	0.0	0.0
	Unknown	0	0.0	0	0.0	0.0
	Total	44	100.0	3,041	100.0	100.0
2020 FFIEC Census Data & 2020 Dun & Bradstreet information according to 2015 ACS						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Small Farm Loans

Small farm lending reflects reasonable dispersion throughout the assessment area. The bank did not originate any small farm loans in the moderate-income census tract; however, only 1.6 percent of total farms within the assessment area are located within the moderate-income census tract. The bank originated 100.0 percent of its small farm loans in middle-income tracts, which is comparable to the total number of farms in those tracts (98.4 percent).

Geographic Distribution of Small Farm Loans						
Assessment Area: 2020 IA Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				
		Count Bank		2020 Dollar Bank		Total Farms
		#	%	\$ 000s	%	%
Small Farm	Low	0	0.0	0	0.0	0.0
	Moderate	0	0.0	0	0.0	1.6
	Middle	51	100.0	5,379	100.0	98.4
	Upper	0	0.0	0	0.0	0.0
	Unknown	0	0.0	0	0.0	0.0
	Total	51	100.0	5,379	100.0	100.0
2020 FFIEC Census Data & 2020 Dun & Bradstreet information according to 2015 ACS						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes

First Heritage Bank’s distribution of loans reflects reasonable penetration among individuals of different income levels and businesses and farms of different revenue sizes. The bank’s home mortgage, small business, and small farm loans originated during the January 1, 2020 to December 31, 2020 evaluation period were reviewed to determine the dispersion of loans among borrowers of different income levels, particularly those designated as low- and moderate -income, and to businesses and farms with less than \$1.0 million in gross annual revenue.

Home Mortgage Loans

First Heritage Bank’s distribution of home mortgage loans reflects a reasonable penetration among borrowers of different income levels. Overall, the bank originated 34.3 percent of home mortgage loans to low-income borrowers, which exceeds the percentage of low-income families in the assessment area (21.2 percent). Additionally, the bank originated 17.1 percent of home mortgage loans to moderate-income borrowers, which is consistent with the percentage of moderate-income families in the assessment area (17.6 percent). Home mortgage loans to middle-income borrowers totaled 11.4 percent, which is below the percentage of middle-income families in the assessment area (22.5 percent). The largest percentage of the bank’s home mortgage loans were made to upper-income borrowers (37.1 percent), which is consistent with the percentage of upper-income families in the assessment area (38.7 percent).

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2020 IA Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison				Families by Family Income
		2020				
		Count		Dollar		
		#	%	\$(000s)	%	%
Totals	Low	12	34.3	487	13.7	21.2
	Moderate	6	17.1	508	14.3	17.6
	Middle	4	11.4	310	8.7	22.5
	Upper	13	37.1	2,239	63.2	38.7
	Unknown	0	0.0	0	0.0	0.0
	Total		35	100.0	3,544	100.0
2020 FFIEC Census Data						
Note: Percentages may not add to 100.0 percent due to rounding						

Small Business Loans

First Heritage Bank’s distribution of small business loans reflects reasonable penetration among businesses of different sizes. The bank originated 88.6 percent of its commercial loans to businesses with revenues of \$1.0 million or less, which is comparable to the percentage of total businesses

within the assessment area with total revenues of \$1.0 million or less (90.6 percent). Additionally, 89.7 percent of small business loans were made in amounts of \$100,000 or less, demonstrating the bank’s willingness to meet small business credit needs within the assessment area. To further address lending needs during the pandemic, the bank actively participated in providing Paycheck Protection Program (PPP) loans to small businesses throughout the area.

Small Business Lending By Revenue & Loan Size							
Assessment Area: 2020 IA Non MSA							
Product Type		Bank & Demographic Comparison					
		Count		Dollar		Total	
		Bank	%	Bank	%	Businesses	
		#	%	\$ 000s	\$ %	%	
Small Business	Revenue	\$1 Million or Less	39	88.6	1,770	58.2	90.6
		Over \$1 Million	5	11.4	1,271	41.8	7.0
		Unknown	0	0.0	0	0.0	2.4
		Total	44	100.0	3,041	100.0	100.0
	Loan Size	\$100,000 or Less	36	81.8	933	30.7	
		\$100,001 - \$250,000	5	11.4	905	29.8	
		\$250,001 - \$1 Million	3	6.8	1,203	39.6	
		Total	44	100.0	3,041	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	35	89.7	879	49.7	
		\$100,001 - \$250,000	3	7.7	550	31.1	
\$250,001 - \$1 Million		1	2.6	341	19.3		
Total		39	100.0	1,770	100.0		
Originations & Purchases							
2020 FFIEC Census Data & 2020 Dun & Bradstreet information according to 2015 ACS							
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>							

Small Farm Loans

First Heritage Bank’s distribution of small farm loans reflects reasonable penetration among farms of different sizes. The bank originated 90.2 percent of its agricultural loans to farms with revenues of \$1.0 million or less. Although this is below the percentage of total farms within the assessment area with revenues of \$1.0 million or less (99.6 percent), 69.6 percent of small farm loans were originated in amounts of \$100,000 or less, demonstrating the bank’s willingness to meet small farm credit needs within the assessment area.

Small Farm Lending By Revenue & Loan Size							
Assessment Area: 2020 IA Non MSA							
Product Type		Bank & Demographic Comparison					
		Count		2020 Dollar		Total Farms	
		Bank	Bank	Bank	Bank		
#	%	\$ 000s	\$ %	%			
Small Farm	Revenue	\$1 Million or Less	46	90.2	4,451	82.7	99.6
		Over \$1 Million	5	9.8	928	17.3	0.4
		Unknown	0	0.0	0	0.0	0.0
		Total	51	100.0	5,379	100.0	100.0
	Loan Size	\$100,000 or Less	35	68.6	1,231	22.9	
		\$100,001 - \$250,000	10	19.6	1,800	33.5	
		\$250,001 - \$500,000	6	11.8	2,348	43.7	
		Total	51	100.0	5,379	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	32	69.6	1,076	24.2	
		\$100,001 - \$250,000	10	21.7	1,800	40.4	
		\$250,001 - \$500,000	4	8.7	1,575	35.4	
		Total	46	100.0	4,451	100.0	

Originations & Purchases
2020 FFIEC Census Data & 2020 Dun & Bradstreet information according to 2015 ACS
Note: Percentages may not add to 100.0 percent due to rounding

Response to Complaints

The bank or this Reserve Bank has not received any CRA-related complaints since the previous examination.

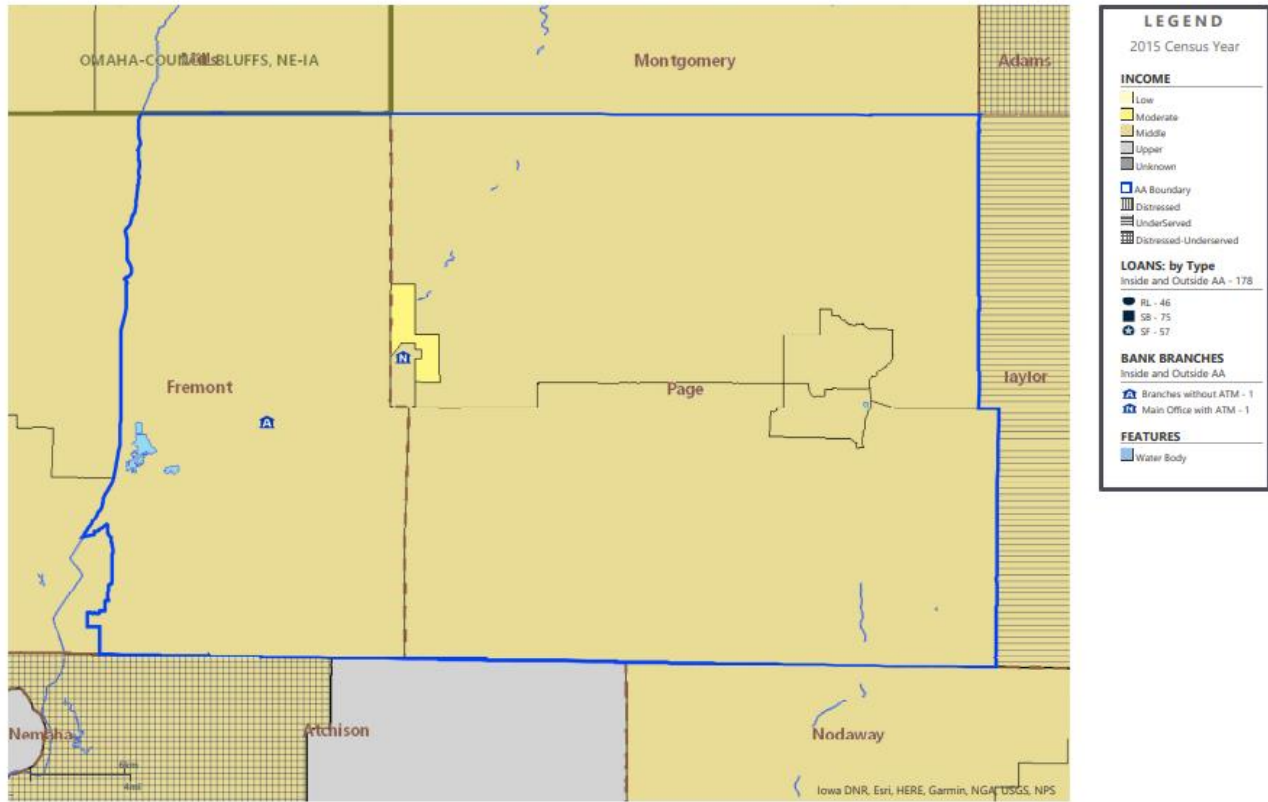
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – Map of Assessment Area

First Heritage Bank 618647
IA Non MSA

Restricted FR



APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		January 1, 2020 – December 31, 2020	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
First Heritage Bank			Home Mortgage Loans Small Business Loans Small Farm Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
None	N/A		N/A
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Iowa Non-MSA	Full Scope	N/A	N/A

APPENDIX C – Glossary

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

American Community Survey Data (ACS): The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.²

Area Median Income (AMI): AMI means –

1. The median family income for the MSA, if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions; or
2. The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment area: Assessment area means a geographic area delineated in accordance with section 228.41

Automated teller machine (ATM): An automated teller machine means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank at which deposits are received, cash dispersed or money lent.

Bank: Bank means a state member as that term is defined in section 3(d)(2) of the Federal Deposit Insurance Act (12 USC 1813(d)(2)), except as provided in section 228.11(c)(3), and includes an

² Source: FFIEC press release dated October 19, 2011.

uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

Branch: Branch refers to a staffed banking facility approved as a branch, whether shared or unshared, including, for example, a mini-branch in a grocery store or a branch operated in conjunction with any other local business or nonprofit organization.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Combined Statistical Area (CSAs): Adjacent metropolitan statistical areas/metropolitan divisions (MSA/MDs) and micropolitan statistical areas may be combined into larger Combined Statistical Areas based on social and economic ties as well as commuting patterns. The ties used as the basis for CSAs are not as strong as the ties used to support MSA/MD and micropolitan statistical area designations; however, they do bind the larger area together and may be particularly useful for regional planning authorities and the private sector. Under Regulation BB, assessment areas may be presented under a Combined Statistical Area heading; however, all analysis is conducted on the basis of median income figures for MSA/MDs and the applicable state-wide non metropolitan median income figure.

Community Development: The financial supervisory agencies have adopted the following definition for community development:

1. Affordable housing, including for multi-family housing, for low- and moderate-income households;
2. Community services tailored to meet the needs of low- and moderate-income individuals;
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or
4. Activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definitions of community development. Activities that revitalize or stabilize:

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies

designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:

- a. Rates of poverty, unemployment or population loss; or
- b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

Community Development Loan: A community development loan means a loan that:

- 1) Has as its primary purpose community development; and
- 2) Except in the case of a wholesale or limited purpose bank –
 - a. Has not been reported or collected by the bank or an affiliate for consideration in the bank’s assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family housing loan (as described in the regulation implementing the Home Mortgage Disclosure Act); and
 - b. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service: A community development service means a service that:

- 1) Has as its primary purpose community development; and
- 2) Is related to the provision of financial services.

Consumer loan: 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 of loans: motor vehicle, credit card, other consumer secured loan, including a home improvement loan not secured by a dwelling, and other consumer unsecured loan, including a loan for home improvement not secured.

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, which 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).

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Full review: Performance under the Lending, Investment and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and amount of qualified investments) and qualitative factors (for example, innovativeness, complexity and responsiveness).

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

Home Mortgage Disclosure Act: The statute that requires certain mortgage lenders that do business or have banking offices in metropolitan statistical areas to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender and income of the applicant(s) and the disposition of the application(s) (for example, approved, denied, and withdrawn).

Home mortgage loans: Are defined in conformance with the definitions of home mortgage activity under the Home Mortgage Disclosure Act and include closed end mortgage loans secured by a dwelling and open-end lines of credit secured by a dwelling. This includes loans for home purchase, refinancing and loans for multi-family housing. It does not include loans for home improvement purposes that are not secured by a dwelling.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Income Level: Income level means:

- 1) Low-income – an 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 census tract;
- 2) Moderate-income – an 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 percent and less than 80 percent in the case of a census tract;

- 3) Middle-income – an 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 percent and less than 120 percent in the case of a census tract; and
- 4) Upper-income – an individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent in the case of a census tract.

Additional Guidance: .12(m) Income Level: The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau's American Community Survey and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level).

Limited-purpose bank: This term refers to a bank that offers only a narrow product line such as credit card or motor vehicle loans to a regional or broader market and for which a designation as a limited-purpose bank is in effect, in accordance with section 228.25(b).

Limited review: Performance under the Lending, Investment and Services test is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, amount of investments and branch office distribution).

Loan location: Under this definition, a loan is located as follows:

- 1) Consumer loan is located in the census tract where the borrower resides;
- 2) Home mortgage loan is located in the census tract where the property to which the loan relates is located;
- 3) Small business and small farm loan is located in the census tract where the main business facility or farm is located or where the loan proceeds have been applied as indicated by the borrower.

Loan product office: This term refers to a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area: A metropolitan statistical area (MSA) or a metropolitan division (MD) as

defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a single core population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area.

Multifamily: Refers to a residential structure that contains five or more units.

Nonmetropolitan area: This term refers to any area that is not located in a metropolitan statistical area or metropolitan division. Micropolitan statistical areas are included in the definition of a nonmetropolitan area; a micropolitan statistical area has an urban core population of at least 10,000 but less than 50,000.

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.

Qualified Investment: This term refers to any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: This term refers to a state or multistate metropolitan area. For institutions with domestic branch offices in one state only, the institution's CRA rating is the state's rating. If the institution maintains domestic branch offices in more than one state, the institution will receive a rating for each state in which those branch offices are located. If the institution maintains domestic branch offices in at least two states in a multistate metropolitan statistical area, the institution will receive a rating for the multistate metropolitan area.

Small Bank: This term refers to a bank that as of December 31 of either of the prior two calendar years, had assets of less than \$1.252 billion. Intermediate small bank means a small bank with assets of at least \$313 million as of December 31 of both of the prior two calendar years and less than \$1.252 billion as of December 31 of either of the prior two calendar years.

Annual Adjustment: The dollar figures in paragraph (u)(1) of this section shall be adjusted annually and published by the Board, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million.

Small Business Loan: This term refers to a loan that is included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. The loans have original amounts of \$1 million or less and are either secured nonfarm, nonresidential properties or are classified as commercial and industrial loans.

Small Farm: This term refers to a loan that is included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500 thousand 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.

Wholesale Bank: This term refers to a bank that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with section 228.25(b).