



PUBLIC DISCLOSURE

July 23, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**THE HERITAGE BANK OF ST. JOSEPH
RSSD# 293558**

**1701 SOUTH BELT HIGHWAY
ST. JOSEPH, MISSOURI 64507-7315**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198**

NOTE: 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.

TABLE OF CONTENTS

Institution's CRA Rating 1

Description of Institution..... 1

Description of Assessment Area 2

Conclusions 5

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

The bank has a satisfactory record of helping to meet the credit needs of its assessment area including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The bank's performance was assessed under the following four core criteria for small banks:

- Loan-to-Deposit Ratio
- Lending Inside the Assessment Area
- Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes
- Geographic Distribution of Loans

The bank's net loan-to-deposit (LTD) ratios for the proceeding eight quarters ending March 31, 2001 were compared to four similarly situated competitor banks and averaged to mitigate disparities resulting from seasonal fluctuations. Conclusions for the remaining performance criteria were based on data compiled from a statistically derived sample of loan files reviewed for each major product line. An explanation of how each major product line was determined is provided later in this public disclosure. The bank's response to complaints was not rated, as the bank has not received any complaints about its performance under the Community Reinvestment Act (CRA).

The analysis showed that a majority of the bank's loans are originated in the bank's overall assessment area. In addition, the distribution of loans in the bank's assessment area reflects reasonable dispersion to individuals of different income levels and businesses of different sizes. The geographic distribution of loans throughout the bank's assessment area reflects a reasonable dispersion. Lastly, the bank's loan-to-deposit ratio is reasonable given the assessment area's credit needs.

DESCRIPTION OF INSTITUTION

The Heritage Bank of St. Joseph is headquartered in St. Joseph, Missouri. The city of St. Joseph is located in the northern portion of Buchanan County or the central portion of the St. Joseph Metropolitan Statistical Area (MSA). The main office is located at 1701 South Belt Highway, with full-service branch offices at 6304 King Hill Avenue and 402 North Belt Highway. The bank also has five automated teller machines in St. Joseph and one in Faucett, Missouri. All offices are readily accessible to the community.

Based on its financial condition, size, and credit offerings, the bank has the ability to meet the credit needs of its assessment area. According to the bank's March 31, 2001 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$144,357M of which net loans comprised \$79,129M or 55 percent. Although the bank offers a variety of credit products to meet the needs of its assessment area, the bank is primarily a commercial and real estate lender. More specifically, commercial and real estate lending represent 80 percent of

the bank's loan portfolio by dollar volume as indicated in Table 1. Consequently, these two loan products were used in evaluating the bank's performance under the Act.

TABLE 1		
Loan Portfolio		
Type of Loan	Amount \$(000)	Percent
Commercial Loans	38,270	48
Loans Secured by Real Estate	25,148	32
Consumer	9,210	12
Farmland or Agricultural	5,490	7
Other	1,011	1
TOTAL	79,129	100

No legal or financial factors exist that hinder the bank's ability to meet the credit needs of its assessment area. The institution received a "satisfactory" rating at its last CRA examination dated July 21, 1997.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The Heritage Bank of St. Joseph designated the St. Joseph MSA as their assessment area. The area is situated in northwest Missouri and comprised of two contiguous counties, Buchanan and Andrew. More specifically, the area is comprised of 32 census tracts in Buchanan County and 4 census tracts in Andrew County. Of the 36 census tracts in the area, 2 are low-income; 7 are moderate-income; 16 are middle-income; and 9 are upper-income geographies. In addition, two area tracts had no income level designation, as they contain either no population or families. All of the area's low- and moderate-income tracts are in the northwest quadrant of Buchanan County in or near the city of St. Joseph. The Bank's main office is located in an upper-income tract, while its two branches are located in moderate- and middle-income tracts. The bank's overall assessment area appears reasonable and does not exclude low- or moderate-income areas.

Table 2 details the general demographic and economic characteristics of the St. Joseph MSA based on 1990 census data.

TABLE 2	
Bank Assessment Area Characteristics	
(Based on 1990 Census Data)	
<i>Tract Summary</i>	
Total Number of Tracts	36
Number of Low-Income Tracts	2
Number of Moderate-Income Tracts	7
Number of Middle-Income Tracts	16
Number of Upper-Income Tracts	9
N/A Tracts*	2
<i>Income Summary</i>	
Median Family Income	\$29,075
Percent Low-Income Families	21.0
Percent Moderate-Income Families	17.5
Percent Middle-Income Families	22.9
Percent Upper-Income Families	38.6
<i>Unemployment Summary</i>	
Labor Force Population (Assessment Area)	46,287
Percent Unemployment (Assessment Area)	3.6
Percent Unemployment (State)	3.0
<i>Miscellaneous Information</i>	
Total Population	97,715
Percentage of Families Living Below the Poverty Level	12.1
Total Housing Units	41,493
Percentage Owner-Occupied Units to Total Units	63.5
Percentage Rental Units to Total Units	30.9
Percentage Vacant Units to Total Units	8.6
*N/A Tracts have either no population or no families and were excluded from the analysis.	

Income Characteristics

According to 1990 census data, the area was primarily middle-income with a median family income of \$29,075 which was 91.3 percent of the statewide median family income of \$31,838¹. However, the area contained a larger concentration of low-income households and families than statewide and it had higher household and family poverty rates. Bureau of Economic Analysis (BEA) data indicated that in 1999, the area continued to have a relatively large low-income population. According to the 1990 census data, 46.2 percent of low-income tract and 22.3 percent of moderate-income tract families lived below the poverty level. The income levels of these low- and moderate-income tract residents may impede the financial institution's ability to effectively lend.

¹ The MSA HUD-adjusted median family incomes that would be used for borrower income analyses were \$42,700 for 2000 data and \$45,700 for 2001 data.

Population

The area is the smallest MSA in the state. Although the area's population grew over the past decade, it grew at a slower rate than the state as a whole and other metropolitan portions of the state. From 1990 to 2000, the MSA population grew from 97,715 to 102,490, a 4.9 percent increase. In comparison, statewide population grew by 9.3 percent for the same time period.

Decennial 2000 census data showed that the area's population was somewhat older than the statewide population. Of the total area nonfamily householders, 12.2 percent lived alone and were over 65 years old in 2000 compared to 10.3 percent statewide.

Housing Trends and Characteristics

Area single-family housing permits grew by 5.6 percent from 1999 to 2000 with the largest permit growth in the first two quarters of 2000. This was followed by a substantial decrease during the last half of 2000. In comparison, statewide single-family housing permits decreased by 13.0 percent for the same time period.

Housing affordability was high in the area. In 1990, its housing affordability ratio² was 53.5 percent compared to 44.4 percent statewide. The area's high housing affordability resulted from its lower median housing value. In 1990, the area contained a large concentration of low-cost, specified owner-occupied housing units. Moreover, 48.6 percent of the area's housing stock was valued under \$40,000 compared to 26.9 percent statewide.

According to 1990 census data, the area contained a large stock of older, single-family housing units. Of the total area housing units, 72.1 percent were single-family units compared to 67.6 percent statewide. The median age of area housing stock (22 years) was slightly younger than statewide (24 years). Housing stock was older in the low- and moderate-income tracts than in other parts of the area. In addition, housing vacancy and boarded-up rates were substantially higher in the low- and

² Affordability rates are calculated using median household income/median housing value. The higher the rate, the more affordable the housing stock.

moderate-income tracts than in area middle- and upper-income tracts. The wider use of "other" housing units³ in the assessment area indicates a potential need for affordable housing development.

Labor and Economic Trends

The area's largest earnings industries in 1999 were services, government, and nondurable goods manufacturing. Specifically, its largest employers included Heartland Health System, St. Joseph Public Schools, Mead Products (stationery, school supplies), The Quaker Oats Company (cereals, flour) and Wire Rope Corp. (manufacturing). One community contact stated that the Quaker Oats Company subsequently moved their facility along with 600 jobs. The area's employment base also contained several additional manufacturers and a casino.

According to "Missouri Works!" economic data, the MSA's unemployment rates have generally been higher than the state as a whole. In 1998 and 1999, MSA unemployment rates were 4.7 percent and 3.5 percent respectively. These compared unfavorably to the statewide rates of 4.2 percent and 3.4 percent. Unexpectedly, the unemployment rates for 2000 were the same for both the MSA and the State at 3.5 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

As stated, various criteria were considered in determining the bank's overall CRA performance rating, including: 1) the concentration of loan originations within the bank's assessment area; 2) the bank's level of lending to borrowers of different income levels and to businesses of different revenue sizes; 3) the distribution of loan originations within the bank's assessment area by income level of census tract; and 4) the bank's level of lending in relation to similarly situated financial institutions in the area. The bank has not received any complaints relative to its performance under the CRA since the last examination; therefore, an evaluation of the bank's response to CRA complaints was not included. As previously noted, community members were contacted to obtain additional information about the assessment area's credit needs and to confirm that the products and services offered by the local banks adequately address those needs. The bank's performance under the Act is considered satisfactory based on the following assessment criteria analysis.

Lending in the Assessment Area

Based on the sample of loans reviewed during the examination, a substantial majority of the bank's lending occurred inside its assessment area as reflected in Table 3. The bank's two major loan products, residential real estate and small business loans, were reviewed in this analysis. A review of the bank's Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) for 1999, 2000 and first quarter 2001 showed that the bank originated 388 real estate loans; of which 363 (94 percent) by number were originated inside the bank's

³ "Other housing units" consist of railway cars, trailers, vans and any other structure used for housing but not designed as a residence.

assessment area. Of the 40 small business loans sampled, 34 (85 percent) by number were originated inside the bank's assessment area. Viewed together, the bank's percentage of HMDA and commercial loans within its assessment area totaled 93 percent, demonstrating the bank's commitment to lend within its designated assessment area.

TABLE 3		
Loans Within the Bank's Assessment Area		
Loan Type	Percentage of Loans Reviewed	Percentage of Total Dollar Amount
Total HMDA	93.6	90.5
Small Business	85.0	83.2
TOTAL	92.8	89.0

Distribution of Loans to Borrowers of Different Income Levels and To Businesses of Different Revenue Sizes

HMDA Loans

The bank's percentage of loans made to borrowers of different income levels was compared to the percentage of families in the assessment area that are designated low-, moderate-, middle-, and upper-income. The analysis focused on the number of loans originated, rather than the dollar volume, as it is a better indicator of the number of people benefiting from these products. The distribution of HMDA loans by income level of borrower is summarized in Table 4.

TABLE 4 Percentage Distribution of All HMDA Loans Reviewed Within the Bank's Assessment Area By Income Level of Borrower					
Area Median Family Income*					\$45,700
Income Level Of Borrower	Percentage of Total Home Loans Reviewed	By Product Type			Percentage of Families within AA**
		Purchase	Refinance	Home Improvement	
		Percentage of Loans Reviewed	Percentage of Loans Reviewed	Percentage of Loans Reviewed	
Low (Less Than 50 Percent of Median Income)	14	18	12	15	21
Moderate (50 To 80 Percent of Median Income)	20	19	17	23	18
Middle (80 To 120 Percent of Median Income)	28	25	27	30	23
Upper (Greater Than 120 Percent of Median Income)	31	31	38	24	39
NA Income Not Available	7	7	6	8	0

* Area Median Family Income is based on the 2001 HUD-adjusted median family income. The HUD-adjusted median family income for 2000 was \$42,200.
** The percentage of families within assessment area at the various income levels is based on 1990 census data.

The bank's lending to low- and moderate-income borrowers is considered acceptable given the economic conditions of the assessment area. Of the 363 real estate loans within the bank's assessment area, 14 percent were to low-income borrowers and 20 percent were to moderate-income borrowers. This compares favorably to the percentages of low- and moderate-income families in the assessment area, 21 and 18 percent respectively. Moreover, 46.2 percent of low-income tract and 22.3 percent of moderate-income tract families lived below the poverty level and were less likely to have the financial means to obtain real estate credit.

The volume of loans originated for low dollar amounts further support the reasonableness of the bank's lending levels to low- and moderate-income individuals. Of the 363 residential real estate loans sampled in the bank's assessment area, the average loan size was \$35,250. This sample includes conventional, refinance, and home improvement real estate loans.

Commercial Loans

TABLE 5 Distribution of Commercial Loans Within the Bank's Assessment Area

Revenue Size	Number	Percent	Percentage of Assessment Area Businesses*
Less than or Equal to \$1 Million	30	88	89
Over \$1 Million	4	12	8
Not Reported/Unknown			3

*Source: 2000 Dun & Bradstreet Business Geodemographic Data

Based on the sample of commercial loans reviewed, the distribution of loans to businesses of different revenue sizes is considered acceptable. Under CRA, small businesses are those businesses with revenue sizes of less than or equal to \$1 million. Of the 34 business loans within the bank's assessment area, 88 percent were made to small businesses, mirroring the percentage of assessment area small businesses identified by the 2000 Dun and Bradstreet data. In addition, a review of the 30 loans originated to small businesses showed that 27 loans (90 percent) were for amounts less than or equal to \$100M.

Table 5 above shows the distribution of commercial loans originated in the bank's assessment area.

Distribution of Loans by Income Level of Geography

HMDA Loans

TABLE 6 Distribution of HMDA Loans Reviewed Within the Bank's Assessment Area By Income Level of Geography		
Income Level of Geography	Percentage of HMDA Loans Reviewed	Percentage of Geographies within Assessment Area
<i>Low (Less than 50 percent of median income)</i>	1	6
<i>Moderate (50 to 80 percent of median income)</i>	27	20
<i>Middle (80 to 120 percent of median income)</i>	47	45
<i>Upper (Greater than 120 percent of median income)</i>	25	25

The banks' lending to low- and moderate-income tracts is considered acceptable, given the economic and housing factors that negatively impact the financial institutions' ability to lend in these areas. As Table 6 shows, the geographic distribution of HMDA loans throughout the assessment area reflects good dispersion. The percentage of HMDA loans reviewed closely mirrored the percentage of geographies by income level within the assessment area.

Furthermore, unemployment was significantly higher in the low- and moderate-income tracts. In 1990, 6.6 percent of individuals residing in the low-income census tracts and 5.6 percent of individuals residing in the moderate-income tracts were unemployed. Areawide, unemployment was 3.6 percent. As previously noted, 46.2 percent of low-income tract and 22.3 percent of moderate-income tract families lived below the poverty level, potentially reducing residential loan demand.

Finally, housing stock was older in the low- and moderate-income tracts than in other parts of the area. In addition, housing data showed signs of housing dilapidation. The dilapidated condition of housing stock may affect financial institutions' ability to effectively originate housing loans because of inadequate collateral.

Small Business Loans

TABLE 7 Distribution of Small Business Loans Reviewed Within the Bank's Assessment Area By Income Level of Geography		
Income Level of Geography	Percentage of Small Business Loans Reviewed	Percentage of Small Businesses Residing in Geographies within Assessment Area
<i>Low (Less than 50 percent</i> <i>of median income)</i>	0	12.0
<i>Moderate (50 to 80 percent</i> <i>of median income)</i>	13	14.0
<i>Middle (80 to 120 percent</i> <i>of median income)</i>	47	39.0
<i>Upper (Greater than 120</i> <i>percent of median income)</i>	40	35.0

The distribution of loans to businesses of different revenue sizes is considered acceptable. As Table 7 shows, there are opportunities for improvement in the bank's level of lending in low-income geographies. Based on the sample of small business loans reviewed, the bank made no loans to small businesses located in the low-income census tracts. However, 1999 peer data indicates that of all business loans reported in the assessment area, only 5.9 percent were made to small businesses located in low-income census tracts.

Loan-To-Deposit-Ratio

The bank's net loan-to-deposit (LTD) ratio averaged 59 percent for the previous 15 quarters since the prior examination. Additionally, the bank's LTD ratio based on an average of the prior eight consecutive quarters ending March 31, 2001 was 58 percent. The bank's eight-quarter ratio was compared to that of four similarly situated competitor banks, whose LTD ratios ranged from 75 percent to 86 percent over the same period. A comparison was also performed between the bank and that of its peer group, whose LTD ratio was 65 percent as of

March 31, 2001. The bank's peer group consists of insured commercial banks having assets between \$100MM and \$300MM located in the St. Joseph MSA. While the bank's ratio lagged that of its competitor banks and peer group, the bank's wide range of products demonstrated the bank's willingness to provide credit to borrowers of different income levels, particularly low-to-moderate income borrowers and businesses of different sizes.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No substantive violations of the antidiscrimination laws and regulations were identified. A review of bank policies, credit applications, and loans during this review revealed no prohibited practices designed to discourage loan applicants.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank’s record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Block Numbering Areas (BNAs) – BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. 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 service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank’s retail banking services, benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract or a block numbering area.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

Low-Income – Less than 50 percent of the area median income

Moderate-Income – At least 50 percent and less than 80 percent of the area median income

Middle-Income – At least 80 percent and less than 120 percent of the area median income

Upper-Income – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) - The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Business Loan – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Farm Loan – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”