



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 16, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Bank, National Association
Charter Number 24681

4222 East Camelback Road, Suite J200
Phoenix, Arizona 85018

Office of the Comptroller of the Currency

Kansas City South Field Office
1710 East 32nd Street, Suite H
Joplin, Missouri 64804

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.

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

Heritage Bank, National Association's (HBNA) lending performance reflects a satisfactory response to community credit needs. This is based on the following factors:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the assessment area (AA).
- A substantial majority of the loans were made inside the bank's AA.
- Lending activities represent a reasonable penetration to businesses of different sizes.
- The geographic distribution of loans represents an excellent dispersion throughout census tracts (CTs) of different income levels in the bank's AA.

SCOPE OF EXAMINATION

The examination of HBNA consisted of a full-scope review of the bank's single AA. The lending test covered January 1, 2007 through June 30, 2009, referred to in this report as the evaluation period. We identified commercial loans as the bank's primary loan product based on the number and dollar amount of loans originated during the evaluation period. There were no affiliate loans to review.

Loan Originations for Evaluation Period	% of Dollar Amount of Loans	% of Number of Loans
Commercial Loan Originations as a % of Total Originations	87%	47%

Source: Loan originations for evaluation period.

We sampled 20 loans from the bank's primary loan product. The data from the original commercial loan sample was used to calculate the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the original sample and added enough additional loans to provide a sample of 20 commercial loans from inside the AA. The sample is representative of the bank's business strategy.

DESCRIPTION OF INSTITUTION

HBNA is a community bank headquartered in Phoenix, Arizona. The bank is a wholly-owned subsidiary of Ameri-National Corporation (ANC), a \$952 million regional multi-bank holding company, headquartered in Overland Park, Kansas. ANC also owns HBNA's affiliate, National Bank of Kansas City. HBNA also has one recently opened lending-related operating subsidiary, One Source Investment Property Service, LLC.

As of June 30, 2009, HBNA had \$167.1 million in assets, total loans of \$109.9 million, and total deposits of \$134.5 million. HBNA operates a main office in Phoenix, located in an upper-income CT, and one branch in Tempe, Arizona, located in a middle-income CT, in addition to owning and operating one full-service ATM. The bank has neither opened nor closed any branch offices during the evaluation period.

The bank's primary lending focus is on commercial loans. In terms of dollars, commercial, commercial real estate, and construction and development loans represent 79% of the bank's total loan portfolio as of June 30, 2009.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The last review of the bank's performance under CRA was completed as of February 28, 2005, under the name Bridgeview Bank Group prior to the purchase of certain assets and liabilities of the Phoenix and Tempe branches by ANC as of September 16, 2006. That examination was conducted by the FDIC and resulted in a rating of "Satisfactory".

Additional details about the bank may be found in its Public File, maintained at the main office of the bank.

DESCRIPTION OF ASSESSMENT AREA(S)

HBNA has designated the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area (MSA) as its AA, which encompasses both Maricopa and Pinal counties, covering almost 14 thousand square miles. There are a total of 696 CTs in the MSA; 43 low-, 199 moderate-, 238 middle-, and 210 upper-income CTs. In addition, 6 CTs do not report data and are listed as unknown. Both of the bank's branches are located in Maricopa County and there are no branch offices located in Pinal County. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies. For additional details on the CTs and income designations, see the bank's Public File.

The counties within the MSA, while similar in economies, will be presented separately in the following narrative.

Maricopa County

According to the Arizona Department of Commerce, Maricopa County is one of the largest counties in the country stretching 100 miles in diameter and covering a total of 9,200 square miles. Maricopa County encompasses the city of Phoenix, which is the county seat and also the state's capital, as well as several smaller cities, towns, and residential communities including Mesa, Scottsdale, Avondale, Buckeye, Chandler, Gila Bend, Gilbert, Glendale, Peoria, and Tempe. In addition, several Native American communities are located in the county, including the Fort McDowell Yavapai Nation and the Salt River Pima-Maricopa Indian Community. The U.S. Bureau of Land Management is the county's largest landholder with 28 percent, an additional 16 percent

is owned publicly, while the U.S. Forest Service and the State of Arizona each hold 11 percent. The Indian Reservations own 5 percent combined. The remaining 29 percent is owned by individuals and corporations.

Maricopa County is one of the fastest growing metropolitan areas in the nation, and is the fourth most populous county in the United States. More than half the state's population resides in Maricopa County. As of July 2008, the population was estimated at over 3.9 million people. The largest business sectors for Maricopa County are Trade, Transportation & Utilities, Professional & Business Services, and Government. Major employers include the State of Arizona, Maricopa County, Bashas', Inc., US Airways, Banner Health System, and Intel Corporation. Maricopa County comprises approximately 64 percent of the labor force in the State of Arizona.

Pinal County

Pinal County encompasses 5,374 square miles and has two distinct regions; the eastern portion is characterized by mountains reaching over 6,000 feet in elevation and copper mining, while the western area is primarily low desert valleys and irrigated agriculture. Pinal County encompasses the county seat of Florence, along with the cities of Apache Junction, Casa Grande, Eloy, Maricopa, and Superior. In addition, there are four Indian Nations - the Maricopa-Pima (Ak-Chin), Gila River, Tohono O'Odham, and San Carlos Apache in Pinal County. The State of Arizona is the county's largest landholder with 35 percent, and combined, the Indian Reservations occupy 23 percent of the county, the U.S. Forest Service holds 14 percent, and another 6 percent is other public land. The remaining 22 percent is owned by individuals and corporations.

In 2008, Pinal County was designated as the second fastest growing county in the nation, by percentage of population, according to the U.S. Census. Over the past 10 years, the population has more than doubled to conservative estimates of over 350,000 as of July 2008, partially as a result of growth from the Phoenix metro area spreading south into Pinal County. The largest business sectors for Pinal County are Government, Trade, Transportation & Utilities, and Leisure & Hospitality. Major employers include Corrections Corporation of America, Pinal County, Abbott Labs/Ross Products Division, and Wal-Mart.

HBNA is in an AA with a diversified employment base, but local economic conditions have deteriorated tremendously in the past two years. Unemployment in the MSA has been on the rise over the past two years with rapid increases in the overall unemployment rate starting in May of 2008. The current MSA unemployment rate, according to the June 2009 United States Department of Labor Bureau of Labor Statistics information, is approximately 8.3 percent. All industries experienced job losses over the past year, with the exception of the Education & Health Services area which showed a slight increase. Construction suffered the largest employment losses due to the sharp drop-off in residential construction. Employment in the construction industry will continue to decline as job losses shift from residential to commercial construction. The impact on the local economy is extreme since the housing industry comprises over 15 percent of total employment, compared to 10 percent nationwide.

Competition for financial services is strong in the Phoenix-Mesa-Scottsdale MSA. The June 30, 2008, FDIC Deposit Market Share Report shows 77 financial institutions, with a combined total of 937 branches, competed for over \$56 billion of insured deposits. JP Morgan Chase, Bank of America, and Wells Fargo collectively hold 64 percent of the deposit market share, representing \$36 billion of insured deposits, and a combined total of 462 branches. HBNA is ranked 43rd with a 0.15 percent share of the marketplace and does not operate outside the area. Almost half the competitors have access to other loans and deposits outside the local market.

There are several similarly situated banks to HBNA in the marketplace. The similarities are identified in terms of size, geographic presence, lines of business, and age of the institution as HBNA is considered a De Novo bank. A De Novo bank is a bank that has been established within the last three years. These institutions include small community banks opened in 2006 and 2007 and were used to evaluate the bank's LTD ratio.

During our evaluation of HBNA, we contacted a community organization to determine the credit and financial needs and opportunities in the AA. The contact was a non-profit organization that provides free, confidential business counseling and training workshops to owners of small businesses. The contact reported that the local economy continues to operate in recession-like conditions, and small businesses are struggling to obtain financing. Only businesses with the strongest credit ratings and typically have already established banking relationships are able to obtain financing in this economy. The contact identified small business lending as the primary credit need because small businesses are having such difficulty securing financing. The contact stated that community banks are not lending to small businesses, and revolving lines of credit are being lowered to the amount already borrowed, which hurts the liquidity position and credit scores of small businesses.

Maps and additional information about the bank's AA may be found in the bank's Public File maintained at the main office of the bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

HBNA's average LTD ratio is reasonable given the bank's size, financial condition, and credit needs of the AA. As of March 31, 2009, the bank's quarterly average LTD for the last 11 quarters since opening was 77 percent, with a low of 66 percent and a high of 108 percent. Also, over the past year due to the bank's risk profile, management made the decision to hold more liquidity, which in turn affected HBNA's LTD ratio.

The results are summarized in the following table:

Bank	Average Quarterly Loan-to-Deposit Ratio (10/2006 - 3/2009)
Heritage Bank, NA	77%
Average of Direct Competitors	103%
Average of De Novo Banks	84%

Source: Uniform Bank Performance Report.

Based on the bank’s identification of direct competitors, their LTD ratio is significantly lower than the average. However, review of the direct competitors revealed that HBNA was not utilizing similarly situated banks when comparing their LTD ratio. Two of the banks were much larger in asset size, part of multi-bank holding companies, and have the ability to sell loans to their affiliate banks. Another bank is a larger community bank that has been in existence for over nine years, has six branches, and also has a presence outside of the AA.

Because HBNA is considered a De Novo bank, we then compared the bank to several similarly situated banks which were also identified as being De Novo banks. The comparison revealed that HBNA’s LTD ratio was just slightly less than the average, and is reasonable.

Lending in Assessment Area

We calculated the percentage of both number and dollar amount of our original sample of 20 commercial loans made inside the bank’s AA. With 90 percent of the number and 72 percent of the dollars, HBNA’s inside/outside ratio reflects that a substantial majority of the primary loan product originated within its AA. This is depicted in the following table:

Lending in the Phoenix-Mesa-Scottsdale MSA AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	90	2	10	20	10,540	72	4,056	28	14,596

Source: Loan data from original sample of 20 loans from 1/1/2007 through 6/30/2009.

We replaced the two commercial loans made outside the bank’s AA to arrive at a new sample of 20 loans for the primary loan product. With this new sample, we analyzed the following tests for Borrower and Geographic Distribution:

Lending to Businesses of Different Sizes

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Forty-five percent of the bank’s loans to businesses originated and purchased during the evaluation period were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million or less. This is considered reasonable compared to demographic data that shows 61 percent of the AA’s businesses are considered small businesses.

The table below shows the distribution of commercial loans among businesses of different sizes in the AA:

Borrower Distribution of Loans to Businesses in the Phoenix-Mesa-Scottsdale MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	% Total
% of AA Businesses	61	5	34	100
% of Bank Loans in AA by #	45	40	15	100
% of Bank Loans in AA by \$	48	26	26	100

Source: Loan sample; Dunn & Bradstreet data. Sample unknown data represents three loans with no gross annual revenue information provided.

Performance for lending to businesses of different sizes meets the standard. Both the percentage of number and dollar amount of loans, though lower than the demographic, are near the percentage of AA businesses with gross annual revenues of less than \$1 million.

Geographic Distribution of Loans

The bank’s geographic distribution of commercial loans reflects excellent dispersion throughout the CTs of different income levels. The percentage of commercial loans made in the low-income CTs meets the demographic standard of five percent. The 35 percent of commercial loans made in the moderate-income CTs significantly exceeds the 24 percent of businesses located in the moderate-income CTs in the AA.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each CT income level.

Geographic Distribution of Loans to Businesses in the Phoenix-Mesa-Scottsdale MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Commercial	5	5	24	35	32	40	39	20

Source: Loan sample and U.S. Census data.

The geographic distribution of loans to the low-income CTs meets the demographic standard, while the bank’s performance in lending to moderate-income geographies significantly exceeds the demographic standard, reflecting excellent dispersion.

Responses to Complaints

No complaints have been received by the bank or the OCC relating to the bank's CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.