

PUBLIC DISCLOSURE

September 7, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Somerville National Bank
Charter Number 9859**

**Main and Church Streets
Somerville, Ohio 45064**

**Office of the Comptroller of the Currency
Central Ohio Field Office
325 Cramer Creek Court, Suite 202
Dublin, Ohio 43017**

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

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Somerville National Bank, Somerville, Ohio** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 7, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

OVERALL CONCLUSIONS

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory Record of Meeting Community Credit Needs**.

The Somerville National Bank (SNB) exhibits a satisfactory performance record. This rating is supported by:

- SNB's loan-to-deposit ratio of 85% at June 30, 1999, is reasonable in comparison with the ratios of its peer banks. Over the last 14 quarters, the loan-to-deposit ratio has increased from 73% at March 31, 1996, to 85% at June 30, 1999.
- The bank's lending to borrowers of different income levels and businesses and farms of different sizes is reasonable.
- The majority of the bank's lending activity occurs within its assessment area and loans are reasonably dispersed throughout the area.

DESCRIPTION OF INSTITUTION

The Somerville National Bank (SNB) is an independent community bank with total assets of \$62 million. SNB offers traditional retail and commercial banking products and services through its main office and three full service branches located in Butler and Preble Counties.

The main office is in Somerville, Ohio which is located in Butler County. The branch offices are located in Camden, Eaton, and Oxford. The Eaton and Oxford branches have drive-up facilities. The bank does not have any automatic teller machines (ATM). All of the offices are located in middle-income areas.

SNB's primary business focus is consumer lending (residential real estate and consumer loans). SNB reported gross loans of \$47 million on their June 30, 1999 Call Report. The percentage of net loans and leases to average assets at the same time period was 73%. The bank's loan portfolio mix as of June 30, 1999, was 33% loans secured by 1-4 family residential real estate, 19% consumer, 19% agricultural, 11% commercial, 13% commercial real estate, and 5% construction/land development.

No financial or legal impediments exist that affect the bank's ability to meet the credit needs of its community. SNB's prior CRA rating as of April 22, 1996, was "Satisfactory Record of Meeting Community Credit Needs."

DESCRIPTION OF ASSESSMENT AREA

The bank has two assessment areas (AA) with contiguous census tracts located in Butler and Preble counties. The Butler County AA (northern third of the county) includes 13 census tracts in Primary Metropolitan Statistical Area (PMSA) 3200, Hamilton-Middletown, Ohio. The 13 census tracts are characterized as follows: one low-income (8%), one moderate-income (8%), nine middle-income (69%), one upper-income (8%), and one geography with no income designation (8%). The Preble County AA includes all ten of the census tracts in the county and is not located in a MSA. All of the census tracts in Preble County are middle-income. The AAs meet the requirements of the regulation and do not arbitrarily exclude low-income or moderate-income geographies.

As of the 1990 Census, the total population of the two AAs is 101,973, with 61,860 in Butler County and 40,113 in Preble County. The AA is made up of 25,434 families, with 13,945 in Butler County and 11,489 in Preble County. Sixty-four percent of the housing units in Butler County are owner occupied and 73% in Preble County. Fourteen percent of the households in Butler County and 9% in Preble County live below the poverty level. The median housing value for Butler County was \$72,456 and \$53,172 for Preble County.

The distribution of families among income categories is as follows for Butler County: 16% are low-, 20% are moderate-, 27% are middle-, and 37% are upper-income. The distribution of families among income categories for Preble County is as follows: 16% are low-, 19% are

moderate-, 25% are middle-, and 40% are upper-income.

Based upon census data, businesses with gross revenues of less than \$1,000,000 account for 95% of all the business entities in Butler County and 94% in Preble County. Farms with gross revenues of less than \$1,000,000 account for 100% of all farms in Butler County and 95% in Preble County.

The median family income for Butler County was \$39,092 compared to \$55,100 for the 1999 HUD (Department of Housing and Urban Development) estimated median family income for MSA 3200. The median family income was \$31,298 for Preble County compared to \$43,200 for the non-metropolitan estimated median family income for the state of Ohio for 1999.

The local economy is stable. The unemployment rates are low at 3.7% for Butler County and 4.0% for Preble County, as of June 1999. The unemployment rate for the State of Ohio as of June 1999 was 4.5%. Major employers in the area include Henny Penny Corporation, Parker-Hannifin, Neaton Auto Products, Square D, and Miami University. Competition in the AA is strong with both community banks and branches of regional financial institutions in Camden, Eaton, and Oxford.

Our discussion with community leaders (via one contact with a community realtor) and bank personnel indicate that community credit needs are being adequately met. They identified consumer lending as the primary credit needs of the area, i.e. residential real estate, automobile, personal, and agricultural loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

SNB's quarterly average loan-to-deposit ratio since the prior CRA examination was 80%. Over the last 14 quarters, the loan-to-deposit ratio ranged from a low of 73% at March 31, 1996, to a high of 85% at June 30, 1999. The average loan-to-deposit ratio for similarly situated banks in the state of Ohio (total assets less than \$100 million) was 87% as of March 31, 1999. The bank's present loan-to-deposit ratio compares reasonably with this peer average.

Lending In Assessment Area

A majority of the loans are made to borrowers within the bank's two assessment areas.

We evaluated the level of residential real estate lending, secured by 1-4 family properties, within the AA by reviewing all (100%) of the bank's Home Mortgage Disclosure Act (HMDA)

data from January 1, 1997 to June 30, 1999. Our residential real estate sample included home purchase, refinance, and home improvement loans. We evaluated the level of business and farm lending from the same period. We sampled 27 business loans and 25 farm loans originated by the bank from the same period. Of the loans sampled by dollar volume, 65% of the home mortgage loans, 98% of the business loans, and 100% of the farm loans were within the bank's AA. See Table 1 for the distribution among loan products.

Table 1				
Lending in the Assessment Area				
	#	%	\$ (000)	%
Real Estate	247	43%	\$13,621	65%
Business	26	96%	\$3,933	98%
Farm	25	100%	\$2,289	100%
TOTAL	298	47%	\$19,843	72%

Bank management conducted a CRA self-assessment review for all loans made in 1998. The analysis indicated that 85% of the total number of loans and 83% of the total dollar volume of loans were originated within the bank's AA. We tested the loans in our sample for accuracy and found no errors.

In mid-1998, the bank commenced a 100% loan-to-value second mortgage financing program through Discover Financial Services ("Discover"). Discover refers an originating first mortgage lender to Somerville National Bank, which provides the second mortgage financing. Most of these loans originated are out-of-area loans. The bank originates a high number of these loans at relatively small dollar amounts. After origination, the bank packages the loans and sells them to another bank. In 1998 the bank closed 196 (\$3,822,000) second mortgage loans and 153 (\$2,894,000) from January 1 through June 30, 1999. They have packaged and sold four groups of loans to two banks since the inception of this program. The bank also offers their customers the opportunity to apply for a residential real estate loan through the secondary market (30 year, fixed rate mortgage loans). The bank does not originate or close these loans. In 1998, 48 secondary market loans totaling \$3,799,500 were made. The bank provides this service to their customers to meet their credit needs.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The analysis of borrower income levels of the residential real estate portfolio reflects, given the demographics of the assessment areas, reasonable distribution among all income levels (including low- and moderate-income). The analysis of business and farm loans indicates a willingness to lend to small businesses and small farms.

The bank's primary business focus is consumer lending (residential real estate and consumer loans). The loan portfolio also includes a large percentage of small business (commercial and

commercial real estate) and agricultural loans.

Based on the demographics of the AA, the bank’s lending to borrowers of different income levels and businesses and farms of different sizes is reasonable. The bank made a lower percentage of loans to low-income borrowers than the percentage of low-income families in the AA, but the income on 22 to 24% of the HMDA loans was non-applicable. Management stated that the income information was not in the file and the decision was based upon another factor.

Also 14% of the households in Butler County and 9% in Preble County live below the poverty level. See Tables 2 and 3 for details on the distribution of home mortgage loans among individuals for each of the two assessment areas.

Table 2										
Distribution of Home Mortgage Loans Among Individuals in the Butler County AA										
	Low		Moderate		Middle		Upper		Non-Applicable	
	#	\$	#	\$	#	\$	#	\$	#	\$
Loans	5%	< 1%	20%	14%	22%	28%	31%	41%	22%	17%
% of Families in bank’s AA	16%		20%		27%		37%			

Table 3										
Distribution of Home Mortgage Loans Among Individuals in the Preble County AA										
	Low		Moderate		Middle		Upper		Non-Applicable	
	#	\$	#	\$	#	\$	#	\$	#	\$
Loans	5%	3%	18%	20%	23%	23%	30%	31%	24%	23%
% of Families in bank’s AA	16%		19%		25%		40%			

The business and farm loan samples represent reasonable distribution among businesses and farms of different sizes for each AA. A majority of the loans are made to businesses and farms with annual gross revenues less than \$1,000,000, which is consistent with the demographics of each AA. Based upon census data, ninety-five percent of the businesses in Butler County and 94% in Preble County have gross revenues less than \$1,000,000. One hundred percent of the farms in Butler County and 95% in Preble County have gross revenues less than \$1,000,000. See Tables 4 and 5 for details.

Table 4		
Distribution of Business Loans		
Annual Gross Revenues	#	\$

	Butler	Preble	Butler	Preble
Less than \$100M	8%	7%	7%	2%
\$100M - \$250M	42%	29%	24%	28%
\$250M - \$500M	25%	21%	18%	38%
\$500M - \$1,000M	8%	29%	2%	28%
Over \$1,000M	17%	14%	49%	4%

Table 5				
Distribution of Farm Loans				
Annual Gross Revenues	#		\$	
	Butler	Preble	Butler	Preble
Less than \$100M	100%	15%	100%	4%
\$100M - \$250M	0%	30%	0%	21%
\$250M - \$500M	0%	35%	0%	57%
\$500M - \$1,000M	0%	20%	0%	18%
Over \$1,000M	0%	0%	0%	0%

Our analysis reflects that the bank is addressing the community's credit needs, as identified by the community contact, by making residential real estate and agricultural loans. Our evaluation did not include an analysis of consumer lending, but consumer loans made up 19% of the bank's loan portfolio at June 30, 1999.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

The bank has two AAs with contiguous census tracts located in Butler and Preble counties. The Butler County AA has one low-income (8%), one moderate-income (8%), nine middle-income (69%), one upper-income (8%), and one geography with no income designation (8%). The Preble County AA includes ten middle-income census tracts, therefore, 100% of the bank's loans made in Preble County were in middle-income census tracts. See tables 6, 7, and 8 for an illustration of the bank's geographic distribution of loans in Butler County.

Table 6				
Distribution of Home Mortgage Loans in Butler County				
	Low-Income	Moderate-Income	Middle-Income	Upper-Income

	#	\$	#	\$	#	\$	#	\$
Home Mortgage Loans	0%	0%	0%	0%	82%	83%	18%	17%
% of Owner Occupied units in Butler County AA	< 1%		8%		85%		7%	

Table 7								
Distribution of Business Loans in Butler County								
	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$	#	\$
Business Loans	0%	0%	0%	0%	92%	71%	8%	29%
% of total businesses in each tract	1%		7%		86%		6%	

Table 8								
Distribution of Farm Loans in Butler County								
	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$	#	\$
Farm Loans	0%	0%	0%	0%	100%	100%	0%	0%
% of total farms in each tract	0%		4%		90%		4% (NA Tracts - 2%)	

Our sample revealed a reasonable dispersion throughout each AA. Loans were made in a majority of the census tracts. There were no loans in our sample made in the low- or moderate-income census tracts. The low-income tract is located in the city of Oxford and 96% of all the housing units in the tract are rental units. Many Miami University students live in this census tract. The moderate-income census tract is located in the city of Hamilton. While 59% of housing units in this census tract are owner-occupied, this tract is located in the southern section of the bank's AA where there is competition from many other financial institutions. The low representation of loans in the low- and moderate-income tracts is not a concern. There is no evidence that the bank is excluding low- or moderate-income individuals or geographies.

Responses to Complaints

The bank has not received any complaints from the public regarding its performance in meeting

the credit needs of the assessment areas since our previous examination.

Other Considerations

Our fair lending sample included a review of home mortgage loans. We reviewed five denied loans to single-applicant females and 21 approved loans to single-applicant males. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.