



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

October 22, 2012

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

1<sup>st</sup> National Bank  
Charter Number 8709

730 E. Main Street  
Lebanon, Ohio 45036

Office of the Comptroller of the Currency

Central Ohio Field Office  
4555 Lake Forest Drive, Suite 610  
Cincinnati, Ohio, 45242-3760

**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.**

1<sup>st</sup> National Bank (“1<sup>st</sup> NB” or “Bank”) exhibits a satisfactory record of meeting community credit needs. The major factors that support the rating are:

- The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition and community needs.
- A reasonable majority of the loans originated during the evaluation period were within the bank’s assessment area (AA).
- The distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable.
- The bank has not received any complaints about its performance in helping to meet the credit needs of its AA since during the evaluation period.

## **SCOPE OF EXAMINATION**

The Office of the Comptroller of the Currency (OCC) conducted a small bank CRA examination of 1<sup>st</sup> NB using financial data as of June 30, 2012. The purpose of the examination was to assess the bank’s record of meeting the credit needs of its community including low- and moderate-income areas. The evaluation period for lending activity included loans originated from January 1, 2010 through December 31, 2011. We reviewed the loan-to-deposit ratio using a 26-quarter average. We based our analysis of lending performance inside the identified AA, borrower income distribution, and geographical distribution on loan origination data from the bank’s residential real estate loans reported on the Home Mortgage Disclosure Act (HMDA) loan application register in years 2010 and 2011, and a sample of 20 business loans originated during years 2010 and 2011. For the borrower distribution and geographic distribution analysis, we removed any business loans originated outside the bank’s AA from our sample and replaced those loans with business loans originated inside the AA as necessary to ensure the sample included twenty loans inside the AA.

We determined that the bank’s primary lending products include residential real estate and business (i.e., commercial and commercial real estate) loans based on our review of the bank’s loan originations and discussions with management. The table below summarizes primary loan products and volume originated or purchased during the evaluation period.

<b>Primary Loan Types</b>		
<b>Loans originated or purchased from January 1, 2010 to December 31, 2011</b>		
<b>Loan Type</b>	<b>% by Number of Loans Originated or Purchased during evaluation period</b>	<b>% by Dollars of Loans Originated or Purchased during evaluation period</b>
Residential Real Estate Loans	71%	89%
Business Loans: Commercial and Commercial Real Estate Loans	8%	10%
Individual Consumer Loans	18%	1%
All Other Loans	3%	Less than 1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*Source: Internal bank reports as of December 31, 2011.*

We considered the bank's performance regarding its primary lending products foremost in this CRA examination. Residential real estate lending was given more weight than business loans for the borrower distribution and geographic distribution analysis due to the bank having much higher lending volumes in this area (refer to the table above).

## **DESCRIPTION OF INSTITUTION**

1<sup>st</sup> National Bank (1<sup>st</sup> NB) is an independent financial institution with its main office located in Lebanon, Ohio. As of June 30, 2012, 1<sup>st</sup> NB reported total assets of \$119 million. The bank's branch network consists of eleven full-service branches across southwestern Ohio that offer traditional loan and deposit products. The bank's three Lebanon branches (Warren County) consist of a full-service banking center (main branch), an "annex" to the main branch that serves as corporate headquarters and operations center, and an in-store branch at the Lebanon Wal-Mart. 1<sup>st</sup> NB operates two additional in-store branches, one in the West Chester Wal-Mart (Butler County) and one in the Eastgate Wal-Mart (Clermont County). There are two full-service banking centers located in northern Cincinnati, one on Fields-Ertel Rd. (Hamilton County, near the Warren County line) and one on Cincinnati-Columbus Rd. (Butler County). The remaining four branches are full-service banking centers in the communities of Morrow, Franklin, Maineville, and Mason (all in Warren County). The Mason branch includes office facilities for 1<sup>st</sup> NB's mortgage lending operation; however, mortgage lenders travel to all branches to meet with applicants. All branches have ATMs except the "annex" in Lebanon. Five branches are located in middle-income tracts and six are located in upper income tracts.

1<sup>st</sup> NB closed or relocated several branches since the prior CRA examination (January 2006). The bank closed the full-service banking center in the Eastgate area of Cincinnati and relocated limited services to the Eastgate Wal-Mart on January 31, 2006. The bank closed a full-service banking center located in Loveland in September 2007 and closed two in-store branches located in Cincinnati and Mason Biggs stores in June 2008 and May 2010, respectively.

1<sup>st</sup> NB's primary business strategy is lending to individuals (residential real estate). Beginning in 2010, the bank has significantly increased its strategic focus to mortgage banking. Bank management hired mortgage loan officers from a larger bank that was exiting this business. In 2011, they closed over \$90 million in mortgage loans, and the bank has a servicing portfolio of over \$60 million.

There are no financial or legal impediments that affect the bank's ability to meet the credit needs of its community. 1<sup>st</sup> NB's prior CRA rating was Satisfactory as of Performance Evaluation dated January 3, 2006.

## DESCRIPTION OF ASSESSMENT AREA

1<sup>st</sup> NB has one assessment area (AA) located within the Cincinnati/ Middletown (#17140) metropolitan statistical area (MSA). The bank's AA consists of 100 census tracts (CT) that includes all of Warren County (32 CTs), eastern Butler County (31 CTs), western Clermont County (24 CTs), and northeastern Hamilton County (13 CTs). The bank's AA complies with all regulatory requirements and does not arbitrarily exclude low or moderate-income areas. The table below summarizes the census tracts income composition by each county located in the bank's AA:

<b>Cincinnati/Middletown MSA Assessment Area Geography Income Composition</b>				
	<b><i>Low-Income</i></b>	<b><i>Moderate-Income</i></b>	<b><i>Middle-Income</i></b>	<b><i>Upper-Income</i></b>
Butler County	1	11	10	9
Clermont County	0	3	16	5
Hamilton County	0	0	4	9
Warren County	0	4	12	15
Totals*	1	18	42	38

\* One census tract in Warren County consists entirely of a prison facility and did not have income data available.

Based on the 2000 census, the total population of the AA is 497,251. There were 137,665 families in the bank's AA, of which, 4 percent are living below the poverty level. The AA contains 192,234 total housing units. Of these housing units, 72 percent are owner occupied, 23 percent are rental units, and the remaining 5 percent are vacant. Total households living below the poverty level equaled 6 percent. The Department of Housing and Urban Development (HUD) updated estimate of the median family income for the Cincinnati/Middletown MSA was \$70,400 for 2011.

The national and local economy experienced a major recession since the previous CRA examination in 2006. According to the Bureau of Labor Statistics, the unemployment rate in the Cincinnati/Middletown MSA (not seasonally adjusted) increased from 5.2 percent in 2006 to 9.6 percent in 2010. However, the economic recovery has been gradually improving. In 2011, the unemployment rate fell to 8.6 percent. As of August 2012, all four counties located in the bank's AA have lower unemployment rates than Ohio and the national average, according to the Ohio Department of Job and Family

Services. The Ohio unemployment rate equaled 7.2 percent; comparatively, the national average unemployment rate equaled 8.1 percent. The unemployment rates for each county located in the AA as of August 2012 were 6.8 percent for Hamilton County, 6.6 percent for Butler County, 6.0 percent for Warren County, and 6.2 percent for Clermont County. Major employers in the AA include: Procter and Gamble, Tri-Health Alliance, The University of Cincinnati, General Electric, Fifth-Third Bank, Ford Motor Company, AK Steel, Miami University (Oxford), and state and local government entities.

Competition for loans and deposits within the bank's AA is strong and comes from branches of several large regional banks, as well as many other community banks, federal savings associations, and credit unions. Large regional banks with significant activity in the area include Fifth-Third Bank, US Bank, PNC Bank, and Huntington National Bank. Fifth-Third Bank and US Bank account for approximately seventy-one percent of all deposits in Hamilton, Butler, Warren, and Clermont Counties. 1<sup>st</sup> NB has a deposit share in the same counties of 0.2 percent. Other local competitors include Lebanon Citizens National Bank, Miami Savings Bank, and First Financial Bank.

We contacted one member of the community to assess further the credit opportunities and needs of the bank's AA, the bank's involvement in its local community, and the effectiveness of the bank's lending products and services. The community contact indicated that affordable housing for low- and moderate-income individuals is a growing need in the community. The community contact was highly complementary of 1<sup>st</sup> NB and other local financial institutions in helping to meet the credit needs of the community. As an example, 1<sup>st</sup> NB participates in the Community Housing Assistance Program, which helps low-income individuals with disabilities obtain affordable housing.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

- Based on the criteria for the CRA lending test, this bank's lending performance is satisfactory.

The bank's lending performance is based on its residential real estate and business (i.e., commercial and commercial real estate) loans originated during the evaluation period beginning January 1, 2010 and ending December 31, 2011. We considered the products the bank's primary lending products based on the volume originated during this period. We selected a sample of 20 business loans and all residential real estate loans reported on the Home Mortgage Disclosure Act (HMDA) loan application register in years 2010 and 2011 in order to evaluate the level and trends of lending within the AA. We eliminated any business loans originated outside of the AA and added loans within the AA to the sample to return the total number of loans to 20 in order to perform the Borrower and Geographic Distribution analyses.

### **Loan-to-Deposit Ratio**

1<sup>st</sup> NB's average LTD ratio over the twenty-six quarters since the prior CRA examination of 78.10 percent is reasonable, and supports satisfactory performance. The bank's quarterly LTD ratio ranged from a low of 70.21 percent at June 30, 2009 to a high of

90.46 percent at September 30, 2011. The average LTD ratio for similarly situated banks with total assets less than \$200 million in Ohio was 84.47 percent for the quarter ending June 30, 2012; the national peer average was 72.80 percent. The bank's LTD ratio of 75.28 percent for the quarter ending June 30, 2012 is below the average for similarly situated Ohio banks, but is above the national peer average.

1<sup>st</sup> NB's LTD ratio is lower than the average of similarly situated institutions due to increased secondary-market mortgage sales activity since 2010. In 2010, the bank sold 324 residential mortgage loans totaling approximately \$65 million. In 2011, the bank sold 461 loans totaling approximately \$93 million. Bank management expects loan sales volume in 2012 to exceed 2011. The sold loans that represent new loan originations rather than refinances of existing 1<sup>st</sup> NB loan balances would serve to augment the bank's loan-to-deposit ratio. (Of note, bank management estimates that in 2011 only fifteen percent of the sold-loan volume represented refinance of existing 1<sup>st</sup> NB loan balances.)

### Lending in Assessment Area

- The bank is lending a substantial majority of their primary loan products inside their AA, which supports satisfactory performance.

Based upon HMDA data and our business loan sample, the bank originated seventy-three percent of the total primary lending products inside their AA from January 1, 2010 through December 31, 2011. The analysis of all HMDA home loans originated during years 2010 and 2011 shows that the bank made seventy-three percent, based on number, inside the bank's AA. Additionally, the bank originated ninety percent of the business loans in our sample inside the bank's AA. 1<sup>st</sup> NB's lending activity within the AA by number and dollar volume is outlined in the table below.

<b>Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	566	73%	210	27%	776	113,737	76%	36,670	24%	150,407
Business	18	90%	2	10%	20	999	62%	600	38%	1,599
Totals	584	73%	212	27%	796	114,736	75%	37,270	25%	152,006

*Source: Home mortgage loan data reported under HMDA; Business loans derived from loan sample.*

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

- The bank's overall performance of lending to borrowers of different income levels and businesses of different sizes is reasonable.

Our analysis of the distribution of the residential real estate and business loans shows reasonable penetration among borrowers of different income levels, including low- to

moderate-income families and small businesses. We weighted residential real estate lending more than business lending in our analysis of borrower distribution because the bank has a much higher volume of originations in residential real estate loans compared to business loans.

<b>Borrower Distribution of Residential Real Estate Loans in Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	13%	3%	16%	21%	22%	32%	49%	43%
Refinancing		2%		8%		11%		79%
Home Improvement		8%		23%		23%		46%

*Source: Data reported under HMDA; 2000 U.S. Census data, updated as of 2011.*

The percentage of home purchase and home improvement loans to low-income families is lower than the percentage of low-income families living in the bank's AA. However, the bank's penetration of home purchase and home improvement loans to moderate-income families exceeds the demographic for the AA. Families living below the poverty level represent thirty percent of low-income families (4% of total families) in the AA and may not meet the bank's credit underwriting criteria to qualify for a home mortgage loan. We also noted that unemployment rates in the Cincinnati/Middletown MSA remained relatively high during years 2010 and 2011, equaling 9.6 percent and 8.6 percent, respectively. Additionally, twenty-three percent of total housing units in the AA are occupied rental units. We placed less emphasis on home improvement loans because the bank originated only thirteen of these loans during the evaluation period.

The percentages of refinance loans to low- and moderate-income borrowers were less than the demographic of low- and moderate-income families in the AA. Since 2010, the volume of the bank's refinance loans has increased from prior years due to historically low interest rates coupled with expansions in the bank's mortgage lending department. However, many borrowers experienced difficulty refinancing their home mortgage loans, particularly families with less disposable income and earnings capacity, because the economic recession caused home values to decline or remain flat since the prior CRA examination. The bank participates in the Home Affordable Refinance Program (HARP), which is a government program designed to help eligible borrowers who, because the value of their home has declined, have been unable to obtain traditional refinancing. Additionally, the bank is actively engaged and provides substantial funding related to affordable housing projects within its community that directly serve to help meet the credit needs of low-income borrowers.

<b>Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66%	3%	31%	100%
% of Bank Loans by #	90%	10%	-	100%
% of Bank Loans by \$	85%	15%	-	100%

Source: Loan sample; Dun and Bradstreet data.

The bank's lending to small businesses exceeds the demographic of the AA. On a number basis, ninety percent of the business loan sample was to businesses with annual gross revenues less than \$1 million. Additionally, based on dollar volume, the bank made 85 percent of business loans to small businesses. These figures compare favorably to the 66 percent of businesses in the bank's AA reporting annual gross revenues less than \$1 million. We placed less emphasis on the bank's performance in lending to small businesses because of the high percentage of unavailable or unknown revenue information for businesses in the AA.

### Geographic Distribution of Loans

- The overall geographic distribution of loans reflects poor dispersion throughout the bank's AA.

<b>Geographic Distribution of Residential Real Estate Loans in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	Less than 1%	0%	11%	1%	39%	27%	50%	72%
Refinance		0%		1%		18%		81%
Home Improvement		0%		0%		23%		77%

Source: Data reported under HMDA; 2000 U.S. Census data, updated as of 2011.

The geographic distribution of home purchase, refinance, and home improvement loans reflects poor dispersion throughout the AA. The bank's percentage of residential real estate loans in moderate-income CTs was significantly below the percentage of owner occupied housing units in the AA's moderate-income CTs. There was minimal opportunity to lend in the one low-income CT in the bank's AA, as less than one percent of owner occupied housing units were located in this geography. We noted that the majority of moderate-income CTs in the bank's AA are concentrated in the Cities of Middletown and Franklin, but all eleven of the bank's branches, including the Franklin branch, are located in either middle or high-income CTs. Another contributing factor making it more challenging for the bank to penetrate moderate-income CTs is that despite the weakened loan demand attributed to the economic recession, competition within these geographies is strong. Additionally, our analysis of these cities revealed



they have higher unemployment and poverty rates than the bank's overall AA. In 2007, AK Steel Corporation relocated its corporate headquarters from the City of Middletown to West Chester Township, Ohio. However, AK Steel Corporation continues to operate its largest steel plant in the City of Middletown and remains a significant employer in the area.

Geographic Distribution of Loans to Businesses in Assessment Area								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	Less than 1%	0%	11%	10%	37%	50%	52%	40%

*Source: Business loan sample; Dun and Bradstreet data.*

Based on our business loan sample, the bank displays reasonable dispersion of lending to businesses in geographies of different income levels within its AA, including low- and moderate-income CTs. There was minimal opportunity to lend in the one low-income CT in the bank's AA, as less than one percent of AA businesses were located in this geography. We weighted residential real estate lending more than business lending in our analysis of geographic distribution because the bank has a much higher volume of originations in residential real estate loans compared to business loans.

## Responses to Complaints

The bank has not received any complaints about its performance in helping to meet the credit needs of its AA since the previous CRA examination.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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