



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 21, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Pandora
Charter Number 11343**

**102 E. Main Street
Pandora, Ohio 45877**

**Comptroller of the Currency
Central Ohio Field Office
325 Cramer Creek Court, Suite 101
Dublin, Ohio 43017**

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.

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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 CRA performance of The First National Bank of Pandora prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 21, 2002. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING:

This institution has a *Satisfactory* record of meeting community credit needs. This rating is supported by:

- The distribution of the bank's lending activities reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- A majority of the bank's lending activity occurs within its assessment area.
- The bank's loan-to-deposit ratio is more than reasonable when compared with similarly situated banks.

DESCRIPTION OF INSTITUTION

The First National Bank of Pandora (FNB) is a wholly owned subsidiary of a one-bank holding company, Pandora Bancshares, Inc. Both FNB and its holding company are headquartered in the Village of Pandora, Ohio. Pandora is in northwest Ohio, about 110 miles northwest of Columbus, Ohio. The bank also operates two full service branches. One branch is in Bluffton, Ohio, located eight miles southeast of Pandora, and the other branch is in Findlay, Ohio, which is about 20 miles northeast of Pandora. Out of these three full-service locations, the bank offers retail, commercial, and agricultural banking products and services. The bank has one off-premise automatic teller machine on the campus of Bluffton College, located in Bluffton, Ohio.

On its June 30, 2002 Call Report, FNB reported total assets of \$120 million with net loans representing 83% of that asset base. Commercial and commercial real estate loans accounted for 42% of the bank's loan portfolio, residential real estate represented 32%, and agricultural and loans secured by farmland accounted for 15%. Consumer loans were 8% of the portfolio with various other categories at 3%.

At the prior CRA examination, as of March 7, 1997, the bank received a satisfactory CRA rating. No legal or financial impediments exist that could restrict the bank's ability to serve the community's credit needs.

DESCRIPTION OF ASSESSMENT AREAS

FNB has two assessment areas (AA). Their first AA is not located within a Metropolitan Statistical Area (non-MSA AA) and their second AA is located within the Lima, Ohio MSA #4320 (MSA AA). Both AAs meet the requirement of the regulation and do not arbitrarily exclude any low- or moderate-income areas.

The non-MSA AA consists of all of Putnam and Hancock counties, which contain five middle-income block number areas (BNAs) and five upper-income BNAs. The 2001 Department of Housing and Urban Development (HUD) estimated family income for non-MSA areas of Ohio is \$46,500. Of all families living in this AA, 11% are classified as low-income (with 8% living below the poverty line), 14% are classified as moderate-income, 24% are classified as middle-income, and 51% are classified as upper-income. Businesses with revenues of less than \$1 million (considered small business for the regulation) account for 87% of all business entities in this AA. Farms with revenues of less than \$1 million account for 98% of all farms in this AA. As of the 1990 Census, this AA had a population of 99,355. This AA had 37,707 housing units, with 73% owner occupied. The median housing value, as of the 1990 Census, was \$61,699.

The MSA AA consists of all of Allen County. It consists of four (11%) low-income census tracts (CT), eight (22%) moderate-income CTs, 19 (53%) middle-income CTs, and five (14%) upper-income CTs. The 2001 HUD estimated median family income for the Lima, Ohio MSA is \$49,600. Of all families living in this AA, 21% are classified as low-income (with 13% living below the poverty line), 19% are classified as moderate-income, 23% are classified as middle-income, and 37% are classified as upper-income. Businesses with revenues of less than \$1

million are 88% of all businesses in this AA. Farms with revenues of less than \$1 million account for 99% of all farms in this AA. According to the 1990 Census, this AA had a population of 109,755 and had 42,758 housing units. Of those units, 66% were owner occupied. The median housing value, as of the 1990 Census was \$50,587.

The combined AA is primarily rural with an agricultural focus. The current economic conditions of the AAs are considered fair with the agricultural sector experiencing a down year in 2002. Some of the largest employers include DTR Industries, Tower Automotive, Grob Industries, Triplet Corporation, and Clymer Manufacturing. As of December 2002, the unemployment rates for Putnam (3.7%) and Hancock (3.0%) counties are lower than the state of Ohio's average rate of 5.0%, with Allen County's unemployment rate (5.7%) exceeding the state's average. The state of Ohio's unemployment rate is consistent with the average of 4.8% as of December 31, 1996, the date used for the last CRA examination.

Competition remains strong, and comes from five community banks located throughout the bank's AAs and one branch of a large bank.

A discussion with a local economic development leader indicated that community credit needs for home purchasing and remodeling, small business, and farm financing are being met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is more than reasonable. Over the 22 quarters since the last CRA examination, the bank's quarterly LTD ratio averaged 97%. This is well above the LTD ratio average of 75% exhibited by similarly situated banks over the same time period. By similarly situated, we mean banks with total assets, as of March 31, 2002, between \$68 and \$204 million and all located within FNB's AAs.

Lending in Assessment Area

The bank makes a majority of its loans within its AA. The bank's primary loan types are commercial and commercial real estate, loans secured by 1-4 family residential properties, and agricultural production and farmland loans. We randomly sampled a total of 20 loans originated since the last CRA examination from these three primary loan types. Out of those 20 loans, the bank made 17, or 85% in its AA. Based on the dollar amount of these loans, the bank made 61% in its AA.

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

The bank’s lending to borrowers of different income levels and businesses of different sizes is reasonable. Performance in each individual AA is consistent with the overall conclusion in this area.

Non-MSA AA (Putnam and Hancock Counties):

The following tables illustrate reasonable lending distribution among borrowers of different incomes and business of different sizes in this AA. The loan samples were taken using the bank’s primary loan types, as discussed under the “**Lending in Assessment Area**” section of this evaluation.

<i>Distribution of Commercial and Commercial Real Estate by Business Size (sample size=20)</i>			
<i>Business size</i>	<i>Percentage of businesses by size in the AA</i>	<i>Percentage of sample in each category</i>	
		<i>By number</i>	<i>By dollar</i>
Small (\$1 million or less in revenue)	87%	90%	88%
Large	8%	10%	12%
Revenue not reported	5%	0%	0%

<i>Distribution of 1-4 Family Residential Loan Sample by Borrower Income (sample size=20)</i>			
<i>Income category</i>	<i>Percentage of families by income category in the AA</i>	<i>Percentage of sample in each category</i>	
		<i>By number</i>	<i>By dollar</i>
Low-income	11%	*0%	*0%
Moderate-income	14%	15%	9%
Middle-income	24%	35%	28%
Upper-income	51%	50%	63%

*No penetration to low-income borrowers is reasonable given that fact that 8% of families in this AA live below the poverty line and would likely not meet the credit standards for home mortgage loans.

<i>Distribution of Agricultural Production and Farmland by Farm Size (sample size=20)</i>			
<i>Farm Size</i>	<i>Percentage of farms by size in the AA</i>	<i>Percentage of sample in each category</i>	
		<i>By number</i>	<i>By dollar</i>
Small (\$1 million or less in revenue)	98%	95%	88%
Large	1%	5%	12%
Revenue not reported	1%	0%	0%

Lima MSA AA in this AA (Allen County):

The following tables illustrate reasonable lending distribution among borrowers of different incomes and business of different sizes in this AA. The samples of loans were taken using the bank’s primary loan types, as discussed under the “**Lending in Assessment Area**” section of this evaluation.

<i>Distribution of Commercial and Commercial Real Estate Loans by Business Size (sample size=20)</i>			
<i>Business size</i>	<i>Percentage of businesses by size in the AA</i>	<i>Percentage of sample in each category</i>	
		<i>By number</i>	<i>By dollar</i>
Small (\$1 million or less in revenue)	88%	90%	*58%
Large	9%	10%	*42%
Revenue not reported	3%	0%	0%

*The percentage of the sample in each category by dollar amount is skewed toward large businesses due to several larger loans made to large businesses. This is not a concern given that the percentage of the sample by number indicates that the bank makes an effort to lend to small businesses.

<i>Distribution of 1-4 Family Residential Loans by Borrower Income using 2000 through June 2002 Home Mortgage Disclosure Act (HMDA) Loan Activity Report</i>			
<i>Income category</i>	<i>Percentage of families by income category in the AA</i>	<i>Percentage of sample in each category</i>	
		<i>By number</i>	<i>By dollar</i>
Low-income	21%	*7%	*3%
Moderate-income	19%	18%	13%
Middle-income	23%	27%	23%
Upper-income	37%	47%	57%
Not Applicable		1%	4%

*Minimal penetration to low-income borrowers is reasonable after considering that 13% of the families in this AA live below the poverty line and would likely not meet the credit standards for home loans.

<i>Distribution of Agricultural Production and Farmland Loans by Farm Size (sample size=20)</i>			
<i>Farm Size</i>	<i>Percentage of farms by size in the AA</i>	<i>Percentage of sample in each category</i>	
		<i>By number</i>	<i>By dollar</i>
Small (\$1 million or less in revenue)	99%	100%	100%
Large	1%	0%	0%
Revenue not reported	0%	0%	0%

Based on the analysis for both AAs, the bank is meeting the basic community credit needs for home, small business, and small farm loans identified by the community contact.

Geographic Distribution of Loans

The BNAs in the non-MSA AA (Putnam and Hancock counties) are all like geographies (either middle- or upper-income). Therefore, an analysis of the geographic distribution of loans in the non-MSA AA would not be meaningful. As of a June 29, 2002, 53% of the bank's loans were in this non-MSA AA. There are a sufficient number and type of geographies in the bank's MSA AA that such a geographic distribution analysis would be meaningful. As of June 29, 2002, the bank has 28% of its loans in this MSA AA. Because only one of the bank's AA is being reviewed, this area is weighted less than the other performance criteria.

Given the demographics of this bank's loan portfolio, the distribution of the bank's loan portfolio reflects reasonable penetration within its MSA AA. The following three tables illustrate this point.

<i>Distribution of Commercial and Commercial Real Estate Loans in the AA (sample size = 20)</i>			
	<i>Percentage of businesses in each type of income tract</i>	<i>Percentage of loan sample in each type of income tract by number</i>	<i>Percentage of loan sample in each type of income tract by dollar amount</i>
Low-income tract (4)	13%	10%	24%
Moderate-income tract (8)	12%	*5%	*6%
Middle-income tract (19)	58%	70%	48%
Upper-income tract (5)	17%	15%	22%

<i>Distribution of 1-4 Family Residential Loans in the AA using 2000 through June 2002 HMDA Loan Activity Report</i>			
	<i>Percentage of owner occupied units in each type of income tract</i>	<i>Percentage of loans in each type of tract by number</i>	<i>Percentage of loans in each type of income tract by dollar amount</i>
Low-income tract (4)	4%	*0%	*0%
Moderate-income tract (8)	12%	*6%	*5%
Middle-income tract (19)	66%	92%	94%
Upper-income tract (5)	18%	2%	1%

*The bank has low/no penetration in low- and moderate-income tracts in several areas located in Lima, Ohio, about 17 miles from the bank's nearest branch. During the review period, the bank employed a loan officer in the Lima area to develop commercial business; however, this was not a significant business focus of the bank.

<i>Distribution of Agricultural Production and Farmland loans in the AA (sample size=20)</i>

	<i>Percentage of farms in each type of income tract</i>	<i>Percentage of loan sample in each type of tract by number</i>	<i>Percentage of loans sample in each type of tract by dollar amt</i>
Low-income tract (4)	0%	0%	0%
Moderate-income tract (8)	3%	10%	7%
Middle-Income tract (19)	88%	90%	93%
Upper-income tract (5)	9%	0%	0%

Responses to Complaints

No complaints relating to the bank's CRA Performance have been submitted during the evaluation period.

Fair Lending Review

An analysis of 2000 through 2002 public comments, consumer complaint information, and Home Mortgage Disclosure Act information was performed according to the OCC's risk-based fair lending approach. Based on the analysis of this information, the OCC determined that a comprehensive fair lending examination is not required in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 2000.