



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**November 27, 2006**

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

**The Citizens National Bank of Southwestern Ohio  
Charter Number 23927**

**29 West Whipp Road  
Dayton, Ohio 45459**

**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.**

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

The Citizens National Bank of Southwestern Ohio (TCNB) has a **SATISFACTORY** record of meeting community credit needs.

- The bank's current and nineteen-quarter average loan-to-deposit ratios are reasonable and commensurate with those demonstrated by local peer banks.
- The distribution of loans reflects, given the demographics of the assessment area (AA), reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

## **DESCRIPTION OF INSTITUTION**

TCNB is an \$83 million intrastate bank located in Dayton, Ohio. TCNB Financial Corporation, a one-bank holding company in Dayton, owns 100% of the bank. Dayton is located in the southwestern section of Ohio. The bank operates two full service offices, the main office and a branch located in Huber Heights. Both offices are located in Montgomery County and are in middle- and upper-income geographies. TCNB has an ATM located at each office and a drive thru facility at the Huber Heights office. The bank's primary business focus is business and retail lending, and offers standard products and services through their two offices.

At the prior CRA examination, as of January 7, 2002, TCNB received a satisfactory CRA rating. Currently, no legal or financial impediments exist that could restrict the bank's ability to serve the community's credit needs. Our current evaluation of the bank's record of meeting the credit needs of the community assesses the bank's lending performance from January 1, 2004 through September 30, 2006, except for the loan-to-deposit ratio analysis which assesses performance from March 31, 2002 to September 30, 2006.

As of September 30, 2006, TCNB reported total assets of \$83 million, Tier One Capital of \$7 million, with net loans representing 81% of average assets. As of September 30, 2006, the bank's \$67 million loan portfolio had the following composition: 47% business loans, 30% residential real estate loans, 15% consumer loans (includes purchased manufactured housing loans), and 8% all other loans. We determined the bank's primary loan products to be commercial and commercial real estate (business loans) and residential real estate loans (including purchased loans for manufactured housing purposes) after reviewing the total originations/purchases made during the evaluation period, total outstanding loans, and discussions held with management. The tables below detail the total number and dollar volume of loans originated during the evaluation period and the total loans currently outstanding as of September 30, 2006.

<b>Primary Loan Types</b>		
<b>Loans originated/purchased from January 1, 2004 to September 30, 2006</b>		
<b>Loan Type</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>	<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>
Commercial & Commercial Real Estate Loans – Business Loans	48%	75%
Purchased Residential Real Estate loans, manufactured housing purposes	30%	10%
All other Residential Real Estate Loans (originated by the bank)	6%	8%
Home Equity Lines of Credit	5%	2%
All other consumer installment loans	7%	1%
All Other Loans	4%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Internal bank reports.

<b>Total Loans Outstanding in the Bank's Portfolio</b>		
<b>As of September 30, 2006</b>		
<b>Loan Type</b>	<b>\$ Volume in 000s</b>	<b>% by Dollars of Loans</b>
Business Loans	\$31,909	47%
Residential Real Estate Loans	\$20,620	30%
Consumer Loans *	\$10,190	15%
All Other Loans	\$5,280	8%
<b>Total</b>	<b>\$67,999</b>	<b>100%</b>

Source: Consolidated Report of Condition (Call Report) as of September 30, 2006.

\*The Consumer Loans total above includes the purchased manufactured housing loans as required by the Call Report. In the Primary Loan Types table, the purchased manufactured housing loans are reported separately from the consumer loans.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank has two AAs, one is located in the Dayton, Ohio Metropolitan Statistical Area (MSA) #19380 [Dayton MSA AA] and the other AA is located in the Cincinnati, OH MSA #17140 [Cincinnati MSA AA]. The Dayton MSA AA consists of all the census tracts in Montgomery County, 17 census tracts in the western section of Greene County, and eight census tracts in southeastern section of Miami County. The Cincinnati MSA AA consists of 14 census tracts in the north central section of Warren County, Ohio. The entire AA is contiguous. Of the 170 census tracts in the Dayton MSA AA, 8% are low-income, 23% moderate-income, 45% middle-

income, and 24% upper-income. Of the 14 census tracts in the Cincinnati MSA AA, 28% are moderate-income, 36% middle-income, 29% upper-income, and 7% are non-applicable. Bank management selected this AA based on the bank's targeted lending territory and branch locations. The bank is headquartered in Montgomery County in the Dayton MSA AA and does most of its lending in that area. Presently, TCNB does not have any offices in the Cincinnati MSA AA, but plans to open an office in Montgomery County in 2007 that is within a few miles to the Warren County line. TCNB has little lending activity in the Cincinnati MSA AA, and it provides little weight in this evaluation. The bank's AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

The Department of Housing and Urban Development (HUD) estimated the 2006 median family income for the Dayton MSA AA at \$59,800 and \$64,600 for the Cincinnati MSA AA. The 2000 median family income, from the 2000 Census, was \$51,271 for the Dayton MSA AA and \$54,771 for the Cincinnati MSA AA. Ten percent of the families in the Dayton MSA AA are living below the poverty level and six percent for the Cincinnati MSA AA. See the tables below for the number of families in the AA by income category and owner-occupied housing units.

<b>PERCENTAGE OF FAMILIES IN EACH INCOME CATEGORY</b>				
<b>Borrower Income Level</b>	<b>Low-Income Families</b>	<b>Moderate-Income Families</b>	<b>Middle-Income Families</b>	<b>Upper-Income Families</b>
<b>Dayton MSA AA</b>	19%	18%	22%	41%
<b>Cincinnati MSA AA</b>	14%	19%	24%	43%

Source: 2000 U.S. Census Data, updated as of 2006.

<b>PERCENTAGE OF OWNER OCCUPIED HOUSING UNITS WITHIN EACH TRACT CATEGORY</b>				
<b>Tracts by Income Category</b>	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>
<b>Dayton MSA AA</b>	2%	18%	45%	35%
<b>Cincinnati MSA AA</b>	0%	25%	37%	38%

Source: 2000 U.S. Census Data, updated as of 2006.

Businesses with revenues of less than \$1 million account for 64% of all the business entities in the Dayton MSA AA. As of the 2000 census, updated as of 2006, the Dayton MSA AA had a population of 688,754 people, with 4% of the population in low-income census tracts, 23% in moderate-income, 42% in middle-income, and 31% in upper-income tracts. The AA has 299,440 housing units with 62% of those as owner-occupied. Of the owner-occupied housing units, 2% are located in low-income census tracts and 18% in moderate-income census tracts. The median housing value, as of the 2000 Census and updated as of 2006, was \$103,116.

Businesses with revenues of less than \$1 million account for 62% of all the business entities in the Cincinnati MSA AA. As of the 2000 census, updated as of 2006, the Cincinnati MSA AA had a population of 63,537 people, with 27% of the population in moderate-income census tracts, 41% in middle-income and 32% in upper-income census tracts. The AA has 23,235 housing

units with 72% of those as owner-occupied. Of the owner-occupied housing units, 25% are located in moderate-income census tracts. The median housing value, as of the 2000 Census and updated as of 2006, was \$135,249.

Major employers in the Montgomery County area in the Dayton MSA AA primarily represent the manufacturing, health care and social assistance, and state and local government industries that comprise 23%, 15%, and 11%, respectively of total employment. Major employers include Delphi Corporation, General Motors and Behr Dayton Thermal Products. The unemployment rate for Montgomery County was 5.8%, 4.7% for Greene County and 4.9% for Miami County as of September 2006. This compares to the 5% unemployment rate for the state of Ohio and 4.4% for the national average. These statistics are estimates prepared in cooperation with the Bureau of Labor Statistics, U. S. Department of Labor. Economic conditions are stable. Competition is strong. According to the Federal Deposit Insurance Corporation database, 22 banking institutions operate 164 locations in Montgomery County with deposits totaling \$7.4 billion as of June 30, 2006. TCNB deposits totaled \$71 million. TNCB had 1% of Montgomery County's market share of total deposits as of June 30, 2006.

Major employers in the Warren County area in the Cincinnati MSA AA primarily represent manufacturing and state and local government that comprise 24% and 14% respectively of total employment. Major employers in Warren County include Cintas Corporation, General Electric and Procter & Gamble. The unemployment rate for Warren County was 4.2% as of September 2006. As of September 2006, the unemployment rates for all counties in the bank's two AAs compare less favorably to the national average of 4.4% with the exception of Warren County reporting 4.2%. All counties compare favorably to the Ohio average of 5% with the exception of Montgomery County reporting 5.8%. However, the overall economic condition of the area remains stable.

Competitors in both of the AAs include at least six of the largest interstate banks and many other community banks in Ohio (national, state, savings, and credit unions). Competition remains very strong throughout both of the bank's AAs.

During our examination we contacted one community contact to discuss current economic conditions and credit needs of the community. We also reviewed five recent community contacts performed by other regulatory agencies. These contacts indicate there is a need for banks to provide affordable home loans, down payment assistance, home ownership counseling for low- and moderate-income individuals, and small business loans. The contact stated that credit needs for low- and moderate-income borrowers exist.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

### **Scope of the Examination**

The bank's performance of business and residential real estate lending (including purchased manufactured housing loans) is considered foremost in this CRA examination. These are the bank's primary lending products.

The scope of this CRA exam included loan samples taken from loans originated from January 1, 2004 to September 30, 2006. The bank's HMDA (Home Mortgage Disclosure Act) data for years 2004 and year-to-date September 30, 2006 was determined to be inaccurate because the bank did not properly report approximately 295 home purchase loans (purchased manufactured housing loans) on the HMDA Loan Application Register (LAR) during the evaluation period. The bank's 2005 HMDA data was determined to be accurate because the bank only purchased two manufactured housing loans in 2005. However, we did review all of the residential real estate loans that the bank *originated* from January 1, 2004 through September 30, 2006, and reported on the HMDA LARs, and we determined these loans to be accurately reported. The error rate on these loans was very low. Bank management is adequately addressing the HMDA issues and correcting the data.

To evaluate lending within the AA, we took a random sample of loans from each primary product. Due to the inaccurately reported HMDA data, our loan sample was limited to twenty business loans, all of the *originated* home purchase/refinance/home improvement loans reported as part of the HMDA data, and a random sample of twenty *purchased* manufactured housing loans during the evaluation period. We sampled the purchased manufactured housing loans since this loan type was not properly reported as part of the HMDA data for years 2004 and year-to-date 2006. We used these files to perform the analysis of Lending in the AA. To perform the Borrower Distribution and Geographic Distribution analyses, we added additional loans within each AA to reach a minimum sample of 20-items within the AA, or if less than 20 loans were made in the AA, we used all of the loans made in the AA during the evaluation period.

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

- **The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs and meets the requirements for satisfactory performance.**

TCNB has an average loan-to-deposit ratio over the last nineteen quarters (March 31, 2002 to September 30, 2006) since the prior CRA examination of 88.83%. The bank's quarterly loan-to-deposit ratio ranged from a low of 81.12% at March 31, 2004, to a high of 95.21% at September 30, 2002. The average loan-to-deposit ratio for similarly situated independent banks in the counties of TCNB's assessment area (Montgomery, Greene, Miami, and Warren Counties) was 74.46% as of September 30, 2006 (national peer average was 79.92%). TCNB had the highest average loan-to-deposit ratio when compared to the seven independent banks in its assessment area that we compared. The bank's present loan-to-deposit ratio of 89.52% at September 30, 2006, is above the peer average. Overall the bank's average and present loan-to-deposit ratios represent satisfactory performance.

### **Lending in Assessment Area**

- **The bank’s record of lending within their AA is reasonable and supports satisfactory performance with a majority of the bank’s lending inside the AA, based upon our loan sample.**

As outlined in the description of the institution above, the bank’s primary loan types are business and residential real estate loans (including purchased manufactured housing loans). Due to the inaccurately reported HMDA data, our loan sample was limited to the twenty business loans, all of the home purchase/refinance/home improvement *originations*, and a sample of twenty *purchased* manufactured housing loans during the evaluation period.

The overall lending in the AA ratio would be significantly lower had all of the purchased loans been properly reported on HMDA. The purchased loans represent a disproportionate amount of loans outside the AA. However, the bank’s primary product is business lending, which represents 75% of the bank’s originated/purchased loans during the evaluation period and 47% of the total loan portfolio. A substantial majority of the bank’s business lending is inside the AA, as indicated by our loan sample and discussions with management. Also, a majority of the residential real estate loans *originated* by the bank were inside the AA. All of the manufactured housing loans are purchased, with the TCNB making the credit decision. A substantial majority of these *purchased* loans are outside the AA per discussion with management and the results of our loan sample.

In conclusion, the bank made 75% of the number of loans in our sample within its AA. Table 1 details the bank’s lending within the AA by number and dollar volume. This table demonstrates that a majority of the loans in our samples were made inside the bank’s AA. Our conclusions are based solely upon our loan samples, since the bank did not properly report all HMDA data.

<b>Table 1 – Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	19	95%	1	5%	20	\$4,432	97%	\$147	3%	\$4,579
Home Purchase	28	82%	6	18%	34	\$4,504	84%	\$870	16%	\$5,374
Refinance	29	94%	2	6%	31	\$4,311	96%	\$168	4%	\$4,479
Home Improvement	10	100%	0	0%	10	\$442	100%	\$0	0%	\$442
Purchased manufactured housing loans	0	0%	20	100%	20	\$0	0%	\$737	100%	\$737
Totals	86	75%	29	25%	115	\$13,689	88%	\$1,922	12%	\$15,611

Source: Sample of loans and HMDA data for years 2004, 2005, and year-to-date September 30, 2006.

### **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 and reflects satisfactory performance.**

**Dayton MSA AA**

The distribution of residential real estate lending reflects reasonable penetration among individuals of different incomes including low- and moderate-income borrowers, and is reflective of overall satisfactory performance for this Dayton MSA AA. Based on the residential real estate loan sample mentioned above, the distribution to borrowers in different income categories reflects penetration to all income categories. Lending to low-income borrowers is significantly less than the percentage of low-income families within the AA; however, lending to moderate-income borrowers is commensurate with the moderate-income families in the AA. As identified previously, a factor contributing to the low level of penetration to low-income borrowers is that 10% of the families in this AA are living below the poverty level (over half of the low-income families in the AA) and may not meet the credit standards for home mortgage loans. There is also a high level of rental units in the AA (31% of the total occupied housing units are rental). Numerous banks and mortgage companies in the Dayton area provide very strong competition for residential real estate loans. Refer to Table 2 for specific details on the bank’s residential real estate lending.

Based on the business loan sample, the distribution of lending to businesses of different sizes is reasonable and supports satisfactory performance. A majority of the loans in our sample to businesses were to businesses with annual gross revenues of less than \$1 million. The level of lending to small businesses is commensurate with the demographics of the area. Refer to Table 2A for specific details on the loans made to businesses.

**Table 2 – Borrower Distribution of Residential Real Estate Loans in the Dayton MSA AA**

Borrower Income Level	Low		Moderate		Middle		Upper		Not Applicable/Not Reported	
	% 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	% of AA Families	% of Number of Loans
Home Purchase	19%	0%	18%	27%	22%	19%	41%	46%	0%	8%
Home Improvement	19%	10%	18%	10%	22%	30%	41%	50%	0%	0%
Refinance	19%	0%	18%	15%	22%	22%	41%	59%	0%	4%
<b>Total Residential Real Estate Loans</b>	19%	2%	18%	19%	22%	22%	41%	52%	0%	5%

Source: HMDA data for originated loans from 2004, 2005, and year-to-date 2006; 2000 U.S. Census Data, updated as of 2006.

**Table 2A – Borrower Distribution of Loans to Businesses in the Dayton MSA AA**

Business Revenues (or Sales)	Less than or equal to	Greater than or equal to	Unavailable/Unknown	Total
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	<b>\$1,000,000</b>	<b>\$1,000,000</b>		
% of AA Businesses by #	64%	6%	30%	100%
% of Bank Loans in AA by #	65%	35%	0%	100%
% of Bank Loans in AA by \$	60%	40%	0%	100%

*Source: Loan sample; 2000 U.S. Census Data, updated as of 2006.*

### ***Cincinnati MSA AA***

The bank only made six business and four residential real estate loans during the evaluation period in the Cincinnati MSA AA. Therefore, the limited activity during the evaluation period does not allow for meaningful conclusions and is provided little weight in the performance evaluation.

Overall, lending to low- and moderate-income borrowers in the Cincinnati MSA AA for residential real lending was poor. While a limited number of residential real estate loans were made in the AA, none were made to low- and moderate-income borrowers.

Based on the business loan sample, the distribution of lending to businesses of different sizes is reasonable and supports satisfactory performance. All of loans in our sample were made to small businesses with annual gross revenues of less than \$1 million, which compares favorably with the demographics of the AA.

### **Geographic Distribution of Loans**

- **The geographic distribution of loans reflects reasonable dispersion throughout the AAs and supports an overall satisfactory conclusion in this area for the entire AA.**

During the evaluation period, TCNB only made six business and four residential real estate loans in the Cincinnati MSA AA. An analysis of the geographic distribution of the bank's lending activity in the Cincinnati MSA AA would not provide meaningful conclusions and is provided very little weight in the performance evaluation, with a very limited number of loans made during this time period. The geographic distribution of loans reflects reasonable dispersion throughout the Dayton MSA AA and supports an overall satisfactory performance conclusion in this area.

### ***Dayton MSA AA:***

The geographic distribution of residential real estate loans reflects less than reasonable dispersion throughout the Dayton MSA AA. During the evaluation period, the bank had 13 low-income (8%), 40 moderate-income (24%), 76 middle-income (45%), and 41 upper-income (24%) census tracts. Only 2% of the owner-occupied housing units in the AA were in low-income census tracts and 18% in moderate-income tracts. The bank did not made any residential real estate loans in low-income census tracts in our sample. TCNB only made 2% of their residential real estate loans in our sample to borrowers in moderate-income census tracts, which is significantly lower than the demographics of the AA. The primary reason for the low

penetration is that the bank's offices are not in close proximity to the low- and moderate-income census tracts and there are numerous banks in the AA providing very strong competition for residential real estate loans. The bank does not have any offices located in low- or moderate-income census tracts.

The geographic distribution of business loans reflects reasonable dispersion throughout the Dayton MSA AA and supports an overall satisfactory performance in this area. The bank made 5% of the business loans in our sample to borrowers in low-income census tracts, which is commensurate with the demographics of the AA. The bank also made 25% of the business loans to borrowers in moderate-income census tracts, which is favorable when compared to the demographics of the AA. Overall penetration to low- and moderate-income census tracts was reasonable.

Overall, the geographic distribution of loans reflects satisfactory performance given that the substantial majority of the bank's lending activity is business-related. The bank originated 48% by number and 75% by dollar of business loans during the evaluation period. Business lending represents almost half of the bank's total loan portfolio (47%) as of September 30, 2006. More weight was given to the bank's business lending in this performance evaluation because it is considered to be the bank's primary product.

Refer to Tables 3 and 3A for specific details on the geographic distribution of loans in the Dayton MSA AA.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in the Dayton MSA AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	% 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
<b>Home Purchase</b>	2%	0%	18%	0%	45%	38%	35%	62%
<b>Home Improvement</b>	2%	0%	18%	10%	45%	20%	35%	70%
<b>Refinance</b>	2%	0%	18%	0%	45%	26%	35%	74%
<b>Total Residential Real Estate Loans</b>	2%	0%	18%	2%	45%	30%	35%	68%

Source: HMDA data for originated loans from 2004, 2005, and year-to-date 2006; 2000 U.S. Census Data, updated as of 2006.

<b>Table 3A – Geographic Distribution of Loans to Businesses in the Dayton AA</b>				
<b>Census Tract Income Level</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>

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	7%	5%	21%	25%	39%	35%	33%	35%

Source: Loan Sample; 2000 U.S. Census Data, updated as of 2006.

### ***Cincinnati MSA AA:***

An analysis of the geographic distribution of the bank’s lending activity in the Cincinnati MSA AA would not be meaningful due to the limited number of loans made. The bank only made four residential real estate loans in this AA and all of them were made to borrowers living in upper income census tracts. The bank made only six business loans in the Cincinnati MSA AA during the evaluation period. Fifty percent (three loans) of the loans in our sample were made to businesses in moderate-income census tracts, which is substantially better than the demographics of AA at 29%. The other three loans were made in upper-income census tracts. In conclusion, the limited number of loans made in this AA does not allow for meaningful conclusions and was provided little weight in the evaluation.

Overall the bank lends to a reasonable number of census tracts in the AAs, with limited activity in the Cincinnati MSA AA. The bank does not have any branches located in the Cincinnati MSA AA, but included it in their AA due to it being a targeted marketing area for the bank. The bank anticipates opening a branch office in Montgomery County that is within a few miles to the Warren County line in the Cincinnati MSA AA during the first half of 2007. It is anticipated that the bank will be better capable of serving this area at that time.

### **Responses to Complaints**

TCNB has not received any complaints about its performance in helping to meet assessment area credit needs 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.