



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 7, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

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

**Comptroller of the Currency
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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.

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 Citizens National Bank of Southwestern Ohio (TCNB)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 7, 2002. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

The Community Reinvestment Act defines the economic status of families and geographies as low-, moderate-, middle-, or upper-income. A low-income borrower means a borrower whose annual income is less than 50% of the Metropolitan Statistical Area's (MSA) median family income. A low-income geography refers to a census tract where the median income of all residents is less than 50% of the MSA median family income. The same test applies for the other income categories, except that moderate-income means 50% to 79%, middle-income means 80% to 119%, and upper-income means in excess of 120%.

This institution is rated Satisfactory.

- The bank has achieved a good distribution of commercial and consumer real estate loans to borrowers of different income levels and businesses of different sizes.
- The distribution of real estate loans to low- and moderate-income census tracts (CTs) is good.
- The bank's loan-to-deposit ratio is good.
- A substantial majority of the bank's loans are within its assessment area (AA).

DESCRIPTION OF INSTITUTION

The Citizens National Bank of Southwestern Ohio is a \$41 million intrastate bank located in Dayton, Ohio. Dayton is in the southwest part of Ohio. TCNB maintains the main office and one automated teller machine (ATM) in the southeast portion of Montgomery County, Ohio. TCNB is a new bank which first opened for business January 24, 2000. The bank's primary market is Montgomery County and the adjacent counties to the east and south. TCNB Financial Corporation, a \$5 million one-bank holding company in Dayton, owns 100% of the bank.

TCNB is a full-service bank offering a variety of loans. Net loans represent 72% of the bank's total assets. As of September 30, 2001, the bank's \$30 million loan portfolio had the following composition: 63% residential real estate, 35% commercial, and 2% consumer.

The bank's original business plan focused on small business loans. As a result of a strong local real estate market in 2000 and 2001, TCNB directed its efforts to serve consumer needs for real estate loans.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its (AA). The bank has not opened or closed any branches since opening.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA consists of all the census tracts in Montgomery County, Ohio that is located in the Dayton-Springfield Metropolitan Statistical Area (MSA # 2000). The table below describes the demographic configuration of the AA.

CENSUS TRACT DEMOGRAPHIC DATA (1990)

	Number of Tracts by Type	Percent of Tracts by Type	Percent of Families In Tracts	Percent of Businesses in Tracts
Low	17	12%	8%	12%
Moderate	27	19%	17%	17%
Middle	67	46%	49%	42%
Upper	33	23%	26%	29%
NA	1	<1%	<1%	<1%
Total	145	100%	100%	100%

Source: 1990 census data

Based on 1990 Census, TCNB's assessment area contains a population of 573,809 of which 12% are below the poverty level and 8% are on public assistance. The median housing value is \$66,000 and the percentage of owner-occupied housing is 59%. The updated 2000 HUD median family income in the MSA is \$55,900.

Major employers in Montgomery County primarily represent the service, retail trade, and manufacturing industries that comprise 31%, 23%, and 22% respectively of total employment. Major employers include Bank One Dayton, Daimler Chrysler Corporation, and General Motors Corporation. The unemployment rate is 4.3% as of December 2001. This compares to 4.5% for the state of Ohio. These statistics are estimates prepared in cooperation with the Bureau of Labor Statistics, U. S. Department of Labor. Economic conditions are good and growth is steady. Competition is strong. According to the Federal Deposit Insurance Corporation database, twenty-one banks and savings associations operate 169 locations in Montgomery County with deposits totaling \$6.5 billion as of June 30, 2001. TCNB deposits totaled \$33

million.

Competitors include seven of the largest interstate banks in Ohio. These include the Fifth-Third Bank headquartered in Cincinnati, and Bank One, NA, headquartered in Columbus. Only two banks are headquartered in Montgomery County.

During our examination we contacted one community contact to discuss current economic conditions, the real estate market, and credit needs. We also reviewed five recent community contacts performed by other regulatory agencies. These contacts were organizations in the fields of trade associations, business development support, and grass roots community coalitions. 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.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's performance of consumer real estate lending is considered foremost in this CRA examination. This is the bank's primary lending product.

To evaluate the level of consumer real estate lending, we took a random sample of 24 from the bank's loan system. These loans were originated between January 24, 2000, and December 31, 2001. We used these files first to perform the analysis of Lending in the Assessment Area and then disregarded any of the loans not originated in the AA. Additional loans within the AA were added to the sample to utilize the 24-item sample to perform the Geographic and Borrower Distribution analyses.

To evaluate lending to commercial business borrowers, we took a sample of 25 loans from the bank's loan records. Examiner's also used the process described above to analyze Geographic and Borrower Distribution.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio (LTD) is good. The average quarterly LTD ratio is 67%. The bank's ratio is not a valid comparison since it opened as a new bank in January 2000. The ratio has been on an increasing trend and stood at 70% on December 31, 2000, 82% on September 30, 2001, and 104% on December 31, 2001. The average LTD ratio of peer banks was 76% for the same period. A peer bank is one of similar size, type, and location.

Lending in Assessment Area

Lending in the AA is excellent given the bank's size and capacity. A substantial majority of TCNB's loan originations, both by number and dollar amount are in its AA. Our sample included the bank's two primary loan products. The following represents our findings.

LENDING IN/OUT OF THE ASSESSMENT AREA

	In the AA		Out of the AA	
	#	\$	#	\$
Real Estate Loans	88%	93%	12%	7%
Commercial Loans	84%	84%	16%	16%

Source: examiner's random sample

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

TCNB's distribution of loans originated by business size and borrower income is good. This rating is based on good performance in residential real estate lending which is the bank's major product.

The bank's lending to businesses of different sizes is satisfactory. The majority of commercial loans were originated to small businesses with annual gross revenues of less than \$1 million. The bank granted 68% by number and 62% by amount to small businesses. The following table details the commercial loan distribution by annual revenue. The AA contains 86% small businesses with annual revenues of less than \$1 million. Both of these products were identified as community credit needs by the contacts.

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE

Annual Revenue	Number of Loans	Percent of Loans Based on Number	Total Dollar Amount (000's)	Percent of Loans Based on Dollar Amount
Less than \$1 million	17	68%	\$4,237	62%
Greater than \$1 million	8	32%	\$2,611	38%
Total	25	100%	\$6,848	100%

Source: examiner's random sample

TCNB's distribution of business loans of different loan size is satisfactory. As the following table shows, loans were generally evenly distributed between loans less than \$100,000, loans less than \$250,000, and loans in excess of \$250,000.

DISTRIBUTION OF COMMERCIAL LOANS BY LOAN SIZE

Loan Size	Number of Loans	Percent of Loans Based on Number
Loans \$100,000 and less	9	36%
Loans >\$100,000 but <\$250,000	8	32%
Loans greater then \$250,000	8	32%
Total	25	100%

Source: examiner's random sample

The distribution of real estate loans shows good penetration to low- and moderate-income families. Our residential loan sample included 24 loans. TCNB originations to low-income borrowers totaled 13% by number compared to 20% low-income families in the AA. Lending based on dollar amount was less than the percent of low-income families in the AA. However, owner occupancy in the low-income CTs is low at 5%. In addition, housing prices which relate to loan dollar amounts are generally lower than in other CTs. The bank's loans to moderate-income borrowers exceeded the demographic percentage of moderate-income families. Twenty-one percent of the sample represented loans to moderate-income borrowers compared to 18% moderate-income families in the AA. This analysis took into consideration that the AA has a fairly low percent of home ownership and 12% of the residents are below the poverty level. Refer to the chart below.

DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY ANNUAL INCOME

Borrower Income Level	Number of Loans in Sample	Percent of Loans Based on Number	Total Dollar Amount (000's)	Percent of Loans Based on Dollar Amount	Percent of Families in AA by Income
Low	3	13%	153	5%	20%
Moderate	5	21%	332	10%	18%
Middle	3	13%	249	8%	24%
Upper	13	53%	2,509	77%	38%
Total	24	100%	3,242	100%	100%

Source: 1990 census data

Geographic Distribution of Loans

The geographic distribution of loans to businesses and consumer borrowers is good.

The bank's lending to businesses in low-income tracts was 4% by number and 6% by dollar volume compared to 11% of the businesses located in these CTs. Lending to businesses located in moderate-income CTs was 12% by number and 7% by dollar volume compared to 16% businesses located in these CTs. The bank is located in a suburban location surrounded by middle- and upper-income CTs. Much of a new bank's initial business tends to come from its directors and their business contacts.

DISTRIBUTION OF COMMERCIAL LOANS BY TRACT INCOME LEVEL

Tract Income Level	Census Tracts in AA by Income		Percent of Businesses in Tract	Percent of Loans by Number	Percent of Loans by Dollar Volume
Low	17	12%	12%	4%	6%
Moderate	27	19%	17%	12%	7%
Middle	67	46%	42%	40%	40%
Upper	33	23%	29%	44%	47%
NA	1	<1%	<1%	<1%	<1%
Total	145	100%	100%	100%	100%

Source: 1990 census data

The distribution of real estate loans by tract income level is excellent. The number of loans originated in low-income CTs is good. Eight percent of the bank's loans were originated to borrowers living in low-income CTs compared to 5% owner occupied units in the AA. Lending in moderate-income CTs is also good at 13% by number compared to 14% moderate-income owner occupied units in the AA. Based on examiner's visual review of the bank's records, real estate loans have been made in most CTs in the AA

DISTRIBUTION OF REAL ESTATE LOANS BY TRACT INCOME LEVEL

Income Tract Levels	Census Tracts in AA by Income		Percent of Owner Occupied Housing by Tract	Percent of Loans Made By Number	Percent of Loans Made by Dollar Amount.
Low	17	12%	5%	8%	5%
Moderate	27	19%	14%	13%	7%
Middle	67	46%	52%	13%	4%
Upper	33	23%	29%	66%	84%
NA	1	<1%	<1%	<1%	<1%
Total	145	100%	100%	100%	100%

Source: 1990 census data

Responses to Complaints

The bank has not received any CRA related complaints since the opening on January 24, 2000.

Fair Lending Review

An analysis of two years public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.