



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**October 20, 2008**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Wellston  
Charter Number 3565**

**101 East A Street  
Wellston, Ohio 45692**

**Office of the 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.**

## **General Information**

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

- This institution meets or exceeds the requirements for satisfactory performance for all applicable performance criteria.
- The bank's 18 quarter average loan-to-deposit (LTD) ratio is reasonable at 79.85% and is commensurate with their peers.
- A substantial majority (94% by dollar volume) of the bank's residential real estate and consumer loans originated during the evaluation period were inside the bank's assessment area (AA).
- The bank's lending to borrowers of different income levels is reasonable.
- The geographic distribution of loans reflects an excellent dispersion to moderate-income areas within the AA.

### **SCOPE OF EXAMINATION**

We performed a small bank CRA examination for the First National Bank of Wellston using financial data as of June 30, 2008. The evaluation period for lending activity included loans originated between January 1, 2006 and September 30, 2008. The LTD ratio was reviewed using an 18-quarter average. Analysis of lending performance inside the identified AA, borrower income distribution, and geographical distribution was based on loan origination data for the same period from which a sample of 20 consumer loans and 20 real estate loans were selected.

The following table indicates the bank's primary lending products (by number and dollars) during the evaluation period.

<b>Primary Lending Products – January 1, 2006 through September 30, 2008</b>		
<b>Loan Type</b>	<b>% by Dollar Amount of Loans Originated during the evaluation period</b>	<b>% by Number of Loans Originated during the evaluation period</b>
<b>Residential Real Estate</b>	<b>56%</b>	<b>16%</b>
<b>Consumer</b>	<b>37%</b>	<b>80%</b>
<b>Commercial/Commercial Real Estate</b>	<b>7%</b>	<b>4%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>

*Source: Bank Internally Supplied System Reports*

## **DESCRIPTION OF INSTITUTION**

First National Bank of Wellston (FNB) is a wholly owned subsidiary of Midwest Bancshares, Inc. Both FNB and its holding company are headquartered in the city of Wellston, Ohio which is located in the Appalachian region of southern Ohio. As of June 30, 2008 FNB reported total assets of \$95 million. The main office is located in Wellston, Ohio in northeastern Jackson County in a moderate-income geography (census tract 9573). The bank has one branch office in the city of Jackson, approximately ten miles from the main office. The branch is located in a middle-income geography which has been identified as distressed (census tract 9575). Both offices have drive-up facilities and automated teller machines (ATMs). The bank also has one ATM at a local convenience store in the same middle-income geography as the branch (census tract 9575). Several community banks are competitive in the AA, providing for a moderately competitive environment.

FNB's primary business focus is lending to individuals (residential real estate and consumer loans). The bank offers standard products and services to accommodate the various borrowers within the AA. The bank will make an installment loan for as small as \$300 and sixty-day note loans for as low as \$100. The bank generally offers home mortgage loans with loan-to-value ratios up to 89%, but is willing to finance up to 100% on a case-by-case basis. Currently, no legal or economic impediments exist that could restrict the institution's ability to serve the community's credit needs. The bank's prior CRA rating was Satisfactory per the Performance Evaluation dated May 25, 2004.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's AA includes all ten of the census tracts located in Jackson and Vinton Counties. Seven of these are in Jackson County and three are in Vinton County. The tracts in the AA are contiguous and surround the area where the bank has its locations. There are no conspicuous gaps, and the AA does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 census shows that the AA contains a population of 45,447, has 12,829 total families

and has a median family income of \$35,841. The Department of Housing and Urban Development's (HUD) estimate of the Ohio statewide non-MSA median family income was \$51,100 for 2006, \$50,000 for 2007 and is \$51,600 for 2008. The AA family total is made up of 27% low-income, 23% moderate-income, 23% middle-income and 27% upper-income families. Of the AA's 19,562 housing units, about 67% are owner-occupied and have an average median cost of \$63,892. Of the 10 tracts in this AA, zero are classified as low-income, five (50%) are classified as moderate-income, five (50%) are classified as middle-income geographies. Of these middle income geographies one (9532 in Vinton County) is underserved and distressed and four are distressed (9574, 9675, 9577 and 9578 in Jackson County). There are no upper-income geographies in the AA.

The economic status of families and geographies are categorized as low-, moderate-, middle-, and upper-income groups using the following definitions. Low-income means an individual income or a geography that is less than 50% of the Ohio statewide non-MSA updated median family income. Moderate-income means an individual income or a geography that is at least 50% and less than 80% of the Ohio statewide non-MSA updated median family income. Middle-income means an individual income or a geography that is at least 80% and less than 120% of the Ohio statewide non-MSA updated median family income. Upper-income means an individual income or a geography that is 120% or more than the Ohio statewide non-MSA updated median family income.

The table below summarizes the AA's income composition by families and geographies.

AA Income Composition by Families and Geographies								
Income Designation	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	#	%	#	%	#	%	#	%
Families	3,461	27%	2,880	23%	2,967	23%	3,521	27%
Census Tracts	0	0%	5	50%	5	50%	0	0%

Source: 2000 Census Data

The overall economic condition of the AA is distressed. The AA is primarily rural with manufacturing as the primary private sector industry. Major employers in the Vinton County area include Austin Powder Co., Community Bancshares Inc., Crownover Lumber Co. Inc., Huston Nursing Home, Sands Hill Coal Company, the State of Ohio, and the Vinton County Local Board of Education. Primary employers in Jackson County include General Mills Inc., Holzer Medical Center, Jackson County Board of Education, Masco Corp/Merillat Industries Inc., Ohio Precious Metals LLC, Osco Industries Inc., Resco Products, Wal-Mart Stores Inc., and the Wellston City Board of Education. Competition in the AA is moderate and comes primarily from several local community financial institutions in the surrounding areas.

The unemployment rates for Jackson and Vinton Counties were 8.7% and 9.2% (not seasonally adjusted), respectively, as of July 2008, which compare unfavorably to state and national

unemployment rates from July 2008 of 5.7% and 7.2% (seasonally adjusted), respectively. FNB had approximately 11% of Jackson and Vinton County's market share of total deposits as of June 30, 2007.

A community contact indicated that the local economy is distressed at the present time. New businesses are not attracted to the area, and the potential for growth is seen as minimal. The contact indicated that consumer and residential credit needs are generally met by local community banks including FNB. The contact also indicated that small business loans are a need in the area and that FNB and other banks meet these needs as well. The contact indicated that Wellston will have some community funding needs with regard to a few social projects in the works at the Chamber of Commerce. The contact also revealed that in the past, local banks supported these types of community projects and expectations are that this would likely continue.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

The bank's lending performance is based on its residential real estate and consumer loans which originated during the evaluation period beginning January 1, 2006 and ending September 30, 2008. These products are considered the bank's primary lending products based on the volume originated during this period. We selected a sample of 20 residential real estate loans in order to evaluate the level and trends with residential real estate lending, and selected a sample of consumer purpose loans in order to evaluate the level and trends with consumer lending. The first level of analysis involved the use of these files to determine the level of Lending within the borders of the AA. Any loans which were originated outside of the AA were then disregarded and additional loans within the AA were added to the samples to bring the total number of loans for each sample back up to 20 to then perform the Borrower Distribution and Geographic Distribution analyses.

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

The average LTD ratio over the last 18 quarters since the prior CRA examination (January 1, 2004 through June 30, 2008) is reasonable at 79.85%. The bank's average quarterly LTD ratio ranged from a low of 74.68% at March 31, 2008, to a high of 84.79% at September 30, 2007. For analysis purposes, FNB's current and 18-quarter average LTD ratios were compared with a custom peer group consisting of banks also located in Jackson and Vinton Counties. The analysis shows that FNB's LTD ratios were commensurate with the peer group's average of 82.37% as of June 30, 2008.

### **Lending in Assessment Area**

The bank's lending performance within the AA is excellent. The bank's primary loan types consist of residential real estate and consumer loans; we sampled 20 loans from each type. Table 1 demonstrates the bank's lending within the AA by number and dollar volume. A substantial majority of the loans included in our sample were originated inside the bank's AA. By dollar volume, 94% of the bank's loans originated during the evaluation period were inside its AA.

<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
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	18	90%	2	10%	20	\$1,643	96%	\$73	4%	\$1,716
Consumer Loans	16	80%	4	20%	20	\$269	85%	\$46	15%	\$315
Totals	34	85%	6	15%	40	\$1,912	94%	\$119	6%	\$2,031

Source: Loan Sample.

**Lending to Borrowers of Different Incomes**

The distribution of residential real estate and consumer lending reflects reasonable penetration among individuals of different incomes including low- and moderate-income borrowers.

The residential real estate loan sample analysis demonstrates that the bank makes a reasonable volume of its loans to low- and moderate-income borrowers. Home loan originations to low-income borrowers as a percentage of total home loans (15%) are less than the percentage (26.98%) of low-income families in the AA. However, there are several factors to consider which may affect penetration to low-income borrowers. Over 18% of households in the AA are below the poverty level and there is a significant level of unemployment in the AA. These factors combined with the median cost of housing and the bank’s credit qualification standards makes it hard for those individuals to qualify for a residential home loan. Also, 29% of the households were on social security as of the 2000 census data and the number of households receiving public assistance was 5%. In addition, the bank has significant competition in its local market by other community banks, and the overall need for this type of credit is being met.

The bank’s level of lending to moderate-income borrowers compares very favorably with the AA percentage, 30% of loans made were granted to moderate-income borrowers compared to 22% of families in the AA. When considering the overall lending to low- and moderate-income levels, the two combined total 45% of loans. The table below demonstrates the bank’s distribution of home loans by borrower income and compares this dispersion to the AA’s specific family income composition.

**Table 2 - Borrower Distribution of Residential Real Estate Loans in the AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential Real Estate Loans	26.98%	15%	22.45%	30%	23.13%	35%	27.45%	20%

Source: Loan Sample; 2000 U. S. Census Data.

The distribution of the bank’s consumer loans by borrower income level in its AA is good. The sample size of consumer loans made in the AA during the review period was 20. The borrower income figure for each loan was compared against the Ohio State non-MSA updated median family income figure for the year the loan originated to determine the appropriate borrower income category. Then the bank’s percentage of the number of consumer loans originated to borrowers by income level was compared against the percentage of AA households in each income category identified by the 2000 census data.

This analysis indicated that FNB’s lending to low-income borrowers meets the standard, but was somewhat below the percentage of households with low-incomes. Lending to moderate-income borrowers significantly exceeded the percentage of households in the AA. Specifically, the bank made five (25%) of the sampled loans to low-income borrowers, ten (50%) to moderate-income borrowers, four (20%) to middle-income borrowers, and one (5%) to upper-income borrowers. The overall loans to low- and moderate- income borrowers total 75%. Table 3 demonstrates the bank’s distribution of sampled consumer purpose loans by borrower income and compares this dispersion to the AA’s specific household income composition.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	30.92%	25%	18.81%	50%	20.81%	20%	29.46%	5%

Source: Loan Sample; 2000 U. S. Census Data.

Overall, our sample supports a reasonable level of distribution for lending to low- and moderate-income borrowers throughout the AA.

### **Geographic Distribution of Loans**

The geographic distribution of loans throughout the AA is excellent. Our sample reflected lending in all income level tracts with no conspicuous gaps or areas of low penetration.

During the evaluation period, the bank’s AA had five geographies that were designated as moderate-income (50%); five (50%) were considered middle-income and all five were considered distressed, and one of the five was considered both underserved and distressed. None were designated as low-income geographies. Forty-six percent of the owner occupied units and households in the AA were in moderate-income tracts. The bank granted 75% of the residential real estate loans in our sample in moderate-income areas, which was more than the percentage of owner occupied units in the AA. The bank granted 65% of the consumer loans in our sample in moderate-income areas, which was also more than the 47% of households in moderate-income tracts. Refer to tables 4 and 5 for separate details on the residential real estate loan and consumer loan samples.

<b>Table 4 - Geographic Distribution of Residential Real Estate Loans in the AA</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
Residential Real Estate Loans	0%	0%	45.69%	75%	54.31%	25%	0%	0%

Source: Loan Sample; 2000 U.S. Census data.

<b>Table 5 - Geographic Distribution of Consumer Loans in the AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	47.17%	65%	52.83%	35%	0%	0%

Source: Loan Sample; 2000 U.S. Census data.

Overall, our analysis supports that the bank has more than reasonable lending activity throughout the AA. In our sample, loans were made in a majority of the tracts in the AA.

### **Responses to Complaints**

Neither our office nor FNB have received any complaints related to CRA during the 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.

**Other Information:**

FNB continues to participate in the FHLB's Welcome Home Program which assists low-moderate income families in becoming homeowners by providing a grant for down payment and closing costs of up to \$5,000 per unit. During the evaluation period FNB has originated 20 loans totaling \$994,000 where borrowers received grant funds toward the purchase of a home (owner-occupied only).

FNB continues to participate in the Community Housing Improvement Program (C.H.I.P.) of Jackson County, which also provides down payment assistance to low- and moderate-income homebuyers. However, the last loan origination occurred in 2005. Though recent originations have not occurred, the bank is still willing to lend to borrowers through the program.

The bank is working with The Ohio Department of Mental Retardation and Developmental Disabilities (MRDD) to provide 100% financing to a qualified borrower who has been approved but the loan has not yet closed. The bank plans to continue working with this agency to provide these low- to moderate-income (LMI) individuals with credit to purchase low-cost housing.