



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 29, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First-Knox National Bank
Charter No. 7638

1 South Main Street
Mt. Vernon, Ohio 43050

Comptroller of the Currency
Central Ohio Field Office
325 Cramer Creek Court, Suite 202
Dublin, Ohio 43017

NOTE: 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 the 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 **First-Knox National Bank** prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of **December 29, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. 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 is rated “**Satisfactory record of meeting community credit needs.**”

The **prior** Performance Evaluation dated December 31, 1993, resulted in a Satisfactory rating.

Major Factors Supporting the Institution’s Rating:

- A good responsiveness to credit needs in its assessment areas.
- A substantial majority of loans made within its assessment areas.
- An adequate distribution of loans to retail customers of different income levels.
- An excellent volume and distribution of loans to businesses and farms of different sizes.
- Retail delivery systems that are readily accessible to all portions of the assessment areas.
- An adequate level of qualified community development investments.

The following table indicates the performance level of **First-Knox National Bank** with respect to the lending, investment and service tests.

PERFORMANCE LEVELS	<u>FIRST-KNOX NATIONAL BANK</u>		
	<u>PERFORMANCE TESTS</u>		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

First-Knox National Bank (FKNB) is a \$490 million institution headquartered in the city of Mt. Vernon in northeast Ohio. It operates branches throughout Knox, Morrow, Holmes and the southern part of Richland Counties. In May 1997, FKNB was acquired by Park National Corporation (PNC), a multi-bank holding company based in Newark, Ohio. PNC also owns three other banks that operate in central Ohio. These include the Park National Bank in Newark, Century National Bank in Zanesville, and the Richland Trust Company in Mansfield. Combined total assets for PNC as of September 30, 1997, were \$2.3 billion.

Subsequent to the date of this examination, the Farmers and Savings Bank, a \$60 million institution previously affiliated with FKNB, was merged into same. The effects of the merger are not reflected in this evaluation of FKNB.

FKNB is a full service institution with a primary business focus on retail lending and a secondary focus on small business lending. There are no impediments that would hamper the bank's ability to help meet the needs of its assessment areas. The bank has historically been profitable. Net income for the nine months ending September 30, 1997, was \$3.3 million. This generated a return on average assets of 0.87%. The loan portfolio contains: 52% mortgage loans secured by 1-4 family residential properties; 28% commercial purpose loans; 17% consumer loans; and 3% agricultural loans. *Table 1* below shows key balance sheet numbers.

Table 1

First-Knox Balance Sheet as of September 30, 1997			
Net Loans	\$ 330,028 *	Total Deposits	\$ 380,821
Investments	128,933	Other Liabilities	67,865
Other Assets	31,111	Equity Capital	41,386
Total Assets	\$ 490,072	Total Liabilities and Capital	\$ 490,072

Source: Call Report

* Dollar amounts are in \$000s.

FKNB has two assessment areas which are adjacent to each other. The larger of the two assessment areas (hereafter referred to as K/M/H) is located in a nonmetropolitan rural area which includes all of Knox, Morrow and Holmes Counties. The smaller assessment area comprises the southern portion of the Mansfield metropolitan statistical area (MSA #4800). It consists of the southern portion of Richland County and is located directly north of Knox County.

FKNB operates five offices in Knox County, two offices in Morrow County, two offices in Richland County and one office in Holmes County. No offices have been opened or closed since the prior CRA evaluation. There are eleven automated teller machines (ATMs) located throughout the assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

Nonmetropolitan K/M/H Assessment Area

The K/M/H assessment area includes a total of 23 geographies representing all of Knox, Morrow and Holmes Counties. Of the 23 geographies, two are designated as moderate-income, twenty as middle-income and one as upper-income. FKNB's main office and a branch office are located in Mt. Vernon, which is in the center of the assessment area in Knox County. Three branch offices are also located in small communities throughout Knox County. Two branch offices are located in Mt. Gilead, which is in the center of Morrow County to the west. One branch office is located in Millersburg, which is in the center of Holmes County to the east. The assessment area is predominantly rural, with Mt. Vernon being the largest population center.

FKNB has the largest deposit market share (32%) of all lenders throughout the assessment area. It has a strong presence in Knox County where competition comes from local offices of Signal Bank (formerly First Federal S&L of Wooster) for mortgage loans and National City Bank for commercial loans and home improvement loans. In Holmes County, locally operated Killbuck Savings Bank and Commercial & Savings Bank have a dominant presence and provide aggressive pricing competition. In Morrow County, competition comes from local offices of Bank One Mansfield and First Federal S&L of Galion.

Area employment is centered in manufacturing industries and agriculture. There has been steady growth of small independent businesses, particularly in Holmes County. Major employers (number of employees) include: Cooper Industries (1,085), Mount Vernon Developmental Center (634), Kenyon College (634), Wayne-Dalton Corporation (647), Merrilat Industries (635) and Case Farms (600). As of September 30, 1997, the unemployment rates for Knox, Morrow and Holmes Counties were 3.6%, 6.1% and 3.1%, respectively. This compares with state and national rates of 4.1% and 4.7%, respectively.

Table 2 shows that only a small percentage of the population, families and owner-occupied housing units are located in low- or moderate-income geographies, while a substantial majority are located in middle-income geographies. Housing costs in the area are reasonable. Monthly owner costs are less than 30% of owner income for over 95% of housing units. Of total housing units in the area, approximately 70% are owner-occupied and 23% are rental units.

Table 2

Demographic Data for Geographies in K/M/H Assessment Area						
Type of Geography	Population		Owner-Occupied Units		Families	
	Number	%	Number	%	Number	%
Moderate-Income	8,549	8%	1,984	7%	2,409	8%
Middle-Income	94,071	87%	24,486	89%	25,197	89%
Upper-Income	5,451	5%	981	4%	996	3%
TOTAL	108,071	100%	27,451	100%	28,602	100%

Source: 1990 Census Data, U.S. Bureau of the Census.

Although only a small percentage of the families reside in low- or moderate-income geographies (*Table 2, above*), a substantial (40%) percentage of families have low or moderate levels of income. This is shown in *Table 3*.

Table 3

Number and Percentage of Families Based on Income Level in the K/M/H Assessment Area		
	Number	Percentage
Low-Income	5,302	19%
Moderate-Income	6,022	21%
Middle-Income	7,265	25%
Upper-Income	10,013	35%
TOTAL	28,602	100%

Source: 1990 Census Data, U.S. Bureau of the Census.

Mansfield MSA 4800 Assessment Area

This assessment area lies directly above the K/M/H assessment area previously described. The Mansfield MSA assessment area includes four geographies (census tracts), of which three are categorized as upper-income, and one as middle-income. The northernmost portion of the assessment area includes the extreme southern portion of the city of Mansfield; however, a substantial portion of the assessment area is rural. FKNB operates branch offices in the small rural communities of Lexington and Belville. Competition comes from Bank One Mansfield which operates three offices in the assessment area, Signal Bank (formerly First Federal S&L of Wooster), The Mechanics Savings Bank and several mortgage companies. Competition overall is strong and FKNB has a small (9%) share of the deposit market. FKNB could not reasonably serve the entire MSA, including all of the city of Mansfield, considering that its only two offices are located in the very southern rural portion of the MSA. There is also considerable competition from larger institutions with offices within the city of Mansfield itself.

The area's local economy is dominated by the city of Mansfield and is considered stable. The community of Lexington has prospered due to business and tourist activity associated with the nearby Mid-Ohio Race Track and its proximity to the urban sprawl from Mansfield. The southeast part of the assessment area includes two ski areas and the Malabar Farm State Park, all of which generate significant tourist activity. There is a modest amount of farming in the area. A significant number of people commute to jobs in Mansfield. Businesses employing over 1,000 persons include MedCentral Health Systems, Mid-Ohio Educational Service Center, Sprint and Therm-O-Disc, Inc. In Belville, Gorman-Rupp Industries employs 100 persons. In Lexington, Hi-Stat Manufacturing and Neer Manufacturing employ a total of 1,150 persons. The unemployment rate for all of Richland County was 6.1% as of September 30, 1997. This is higher than the state and national rates of 4.1% and 4.7%, respectively.

Table 4 details various demographic data for the Mansfield MSA assessment area that we reviewed. The table reflects that none of the population live in low- or moderate-income geographies and that a majority are located in upper-income geographies. Housing costs in the area are reasonable. Monthly owner costs are less than 30% of owner income for over 95% of housing units. Of total housing units, 76% are owner-occupied and 21% are rental units.

Table 4

Demographic Data for Geographies in Mansfield MSA Assessment Area						
Type of Geography	Population		Owner-Occupied Units		Families	
	Number	%	Number	%	Number	%
Middle-Income	8,035	39%	2,383	29%	2,277	27%
Upper-Income	20,614	61%	5,921	71%	6,153	73%
TOTAL	28,649	100%	8,304	100%	8,430	100%

Source: 1990 Census Data, U.S. Bureau of the Census.

Table 5 shows that approximately 25% of families have low- or moderate-income levels. The highest concentration of families at 52% is in the upper-income level. This information is used to compare the bank's lending patterns to borrowers of different income levels.

Table 5

Number and Percentage of Families Based on Income Level in the Mansfield MSA Assessment Area		
	Number	Percentage
Low-Income	849	10%
Moderate-Income	1,223	15%
Middle-Income	1,934	23%
Upper-Income	4,424	52%
TOTAL	8,430	100%

Source: 1990 Census Data, U.S. Bureau of the Census.

INFORMATION FROM COMMUNITY CONTACTS:

We conducted interviews with representatives of various local/county government offices and business groups to determine opportunities for participation by financial institutions in helping meet local credit and community development needs. Contacts indicated that there is a need for rental and lower-income housing units, as well as rehabilitation of existing homes, but that opportunities for banks to get involved in development programs are limited as most of the existing programs are funded by state or federal grants. One contact stated that Habitat for Humanity had built several homes in the area and that banks could participate in that program. Contacts indicated that credit needs for housing loans were being adequately met by all local financial institutions. It was also indicated that a down-payment assistance program sponsored by a local government office had not been well utilized.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

FKNB's lending test is rated High Satisfactory based on the following:

- The substantial volume of home mortgage loans and small business and farm loans made within its assessment area.
- An excellent distribution of loans throughout all geographies.
- An excellent distribution of loans to businesses and farms of different sizes.
- Use of flexible lending practices in order to meet assessment area credit needs.

Lending Activity:

FKNB demonstrates a good responsiveness to the credit needs in its assessment areas, particularly to small businesses and farms with revenues less than \$1million. FKNB's loan-to-deposit ratio was 87% as of September 30, 1997. This compares favorably with the bank's national peer group ratio of 77% for the same date. It also represents a substantial increase from the 76% loan-to-deposit ratio noted at December 31, 1993.

Concentration in Assessment Areas:

Table 6 shows the number and dollar amount of the bank's HMDA reportable loans, small business loans and small farm loans that were originated inside the bank's assessment areas. HMDA reportable loans include home purchase, refinancing and home improvement loans. Information in the table represents data from 1996 and the first ten months of 1997. This table shows that a high percentage of the bank's loans, by both number (92%) and dollar amount (89%), are made inside its assessment areas.

Table 6

Ratio of Loans Inside Assessment Areas				
	HMDA Loans	Small Business	Small Farm	Total
# Loans Inside AAs	1,128	1,019	292	2,439
Total # of Loans	1,213	1,123	327	2,663
% Loans Inside/Total # Loans	93%	91%	89%	92%
\$ (000s) Loans Inside AAs	\$ 64,681	\$ 58,175	\$7,804	\$130,660
Total \$ (000s) of Loans	70,077	67,875	9,289	147,241
% Loans Inside/Total \$ Loans	92%	86%	84%	89%

Source: FFIEC, 1996 HMDA and CRA disclosures; Internal Bank reports.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent penetration throughout FKNB's assessment areas. This is based on the location of HMDA, small business and small farm loans originated during 1996 and the first ten months of 1997, compared with the opportunities in these areas. Loans of all the above types were made in each of the 23 geographies in the K/M/H assessment area and in each of the four geographies in the Mansfield MSA assessment area, in each of 1996 and 1997. The only two moderate-income geographies located in Knox County

showed similar levels of loans when compared to the other 21 middle-income geographies and 4 upper-income geographies. Overall, we observed that First-Knox's lending patterns were consistent with its lending opportunities and its business focus in both assessment areas.

Home Mortgage Loans

Table 7 below shows the numbers and dollars of HMDA loans originated in each income type of geography, within each assessment area during 1996. Based on internal bank information compiled for the first ten months of 1997, we determined that the distribution of loans for this period was similar to 1996. Low-income geographies are not represented in the table since there are none in either of the bank's assessment areas. This table indicates that 13% of the number of HMDA loans were made in moderate-income geographies. This is considered good compared to the percentage of owner-occupied units (7%) and families (8%) in these geographies.

Table 7

Geographic Distribution of HMDA Loans - 1996							
Type of Geography		K/M/H Assessment Area			Mansfield MSA Assessment Area		
		# or \$(000s) Loans	% of Total Loans	% of Total Owner-Occupied Units	# or \$(000s) Loans	% of Total Loans	% of Total Owner-Occupied Units
Moderate Income Tracts	#Loans	77	13%	7%	NA	NA	NA
	\$Loans	3,981	11%		NA	NA	NA
Middle Income Tracts	#Loans	487	80%	89%	41	75%	29%
	\$Loans	29,345	82%		2,004	74%	
Upper Income Tracts	#Loans	43	7%	4%	13	24%	71%
	\$Loans	2,638	7%		720	26%	
TOTAL	#Loans	607	100%	100%	54	100%	100%
	\$Loans	35,964	100%		2,724	100%	

Source: FFIEC, 1996 HMDA Disclosure Statement.

Table 8 represents a more detailed breakdown of the HMDA data presented in **Table 7**. It shows the number and percentage of loans for each product type that were originated in each income level of geography, for each assessment area, during 1996. Based on internal bank information compiled for the first ten months of 1997, we determined that the distribution of each type of loan for this period was similar to that of 1996. The table shows that FKNB originated 23% of home purchase loans in moderate-income geographies. This percentage compares very favorably with

the percentage of owner-occupied units (7%) in moderate-income geographies. Originations of refinance and home improvements loans in moderate-income geographies at 7% and 9%, respectively, are comparable to the percentage of owner-occupied units in these geographies.

Table 8

Geographic Distribution of HMDA Loans by Product Type (Number and Percentage of Loans)						
Type of Geography	K/M/H Assessment Area			Mansfield MSA Assessment Area		
	Home Purchase	Refinance	Home Improve- ment	Home Purchase	Refinance	Home Improve- ment
Moderate Income Tracts	44	21	12	NA	NA	NA
	23%	7%	9%	NA	NA	NA
Middle Income Tracts	131	247	109	8	18	15
	70%	88%	80%	73%	72%	83%
Upper Income Tracts	13	15	15	3	7	3
	7%	5%	11%	27%	28%	17%
Total	188	283	136	11	25	18
	100%	100%	100%	100%	100%	100%

Source: FFIEC, 1996 HMDA Disclosure Statement.

Small Business and Farm Loans

Table 9 shows the percentage of small business and small farm loans by income level of geography. This information reflects the number of loans made during 1996 for each assessment area. FKNB's geographic distribution of small business and small farm lending is reasonable considering the location of businesses and farms in the assessment areas. Approximately 10% of small business loans were made in low- or moderate-income (LMI) geographies. This is consistent with the percentage (9%) of moderate-income geographies in the K/M/H assessment area. Although only 1% of farm loans have been made in LMI geographies, this is consistent with the fact that the two moderate-income geographies consist largely of the town of Mt. Vernon.

Table 9

Geographic Distribution of Small Business and Farm Loans - 1996 (Number and Percentage of Loans)						
Type of Geography	K/M/H Assessment Area			Mansfield MSA Assessment Area		
	Small Business	Small Farm	Total	Small Business	Small Farm	Total
Moderate Income Tracts	54	1	55	NA	NA	NA
	10%	1%	8%	NA	NA	NA
Middle Income Tracts	464	150	614	24	2	37
	86%	97%	88%	80%	50%	71%
Upper Income Tracts	22	3	25	6	2	15
	4%	2%	4%	20%	50%	29%
TOTAL	540	154	694	30	4	52
	100%	100%	100%	100%	100%	100%

Source: FFIEC, 1996 CRA Disclosure Statement.

Borrower's Profile

The overall distribution of FKNB's home mortgage, small business and small farm loans reflects adequate penetration among retail customers of different income levels and good penetration among business customers of different sizes.

Home Mortgage Loans

Table 10 details the number and dollar amount of HMDA loans made in 1996 to borrowers of different income levels in both assessment areas. The table shows that, for both assessment areas, there is a low level of lending to low-income persons in comparison to the percentage of low-income families living in those areas. In the K/M/H assessment area, 4% of loans were made to low-income borrowers compared to a 19% distribution of families at this income level. In the Mansfield MSA assessment area, 4% of loans were made to low-income borrowers compared to a 10% distribution of families at this income level. Senior management felt that this apparent disparity was related to the following two factors: (1) low-income families are more likely to be renters than homeowners; and (2) low-income families have a reduced capacity to repay loans because a larger portion of their incomes must be spent on daily subsistence. Lending to moderate-income borrowers is reasonably reflective of the percentage distribution of moderate-income families in the areas.

Table 10

Borrower Distribution of HMDA Loans - 1996							
Income Level of Borrower		K/M/H Assessment Area			Mansfield MSA Assessment Area		
		# or \$(000s) Loans	% of Total Loans	% of Total Families	# or \$(000s) Loans	% of Total Loans	% of Total Families
Low Income	#Loans	26	4%	19%	2	4%	10%
	\$Loans	902	3%		88	3%	
Moderate Income	#Loans	121	20%	21%	11	20%	15%
	\$Loans	5,888	16%		430	16%	
Middle Income	#Loans	168	28%	25%	19	35%	23%
	\$Loans	8,848	24%		869	32%	
Upper Income	#Loans	292	48%	35%	22	41%	52%
	\$Loans	20,716	57%		1,337	49%	
TOTAL	#Loans	607	100%	100%	54	100%	100%
	\$Loans	35,964	100%		2,724	100%	

Source: FFIEC, 1996 HMDA Disclosure Statement.

Table 11 gives a further breakdown of how specific types of HMDA loans were distributed among borrowers of different income levels in the K/M/H assessment area during 1996. It shows that the low level of lending to low-income individuals identified in *Table 10* extends across all product types (home purchase, refinance and home improvement). The percentage of loans to low-income borrowers for home purchase, refinance and home improvement was 6%, 4% and 3%, respectively, compared to the 19% distribution of low-income families. The low level of home improvement lending is not favorable in light of identified needs for housing rehabilitation mentioned by community contacts. Market share analyses based on 1996 HMDA information further show that although FKNB has a 34% market share of all home improvement loans, it has only a 22% market share of home improvement loans made to low-income borrowers. Senior management feels that this low level of lending to low-income borrowers is affected by the aggressive marketing and pricing of home improvement loans by other local institutions and the fact that FKNB has not specifically promoted this product. Information on loans originated by specific product type was not available for the Mansfield MSA assessment area.

Table 11

Borrower Distribution of HMDA Loans by Product Type							
Income Level of Borrower	Home Purchase		Refinance		Home Improvement		% of Total Families
	#	%	#	%	#	%	
Low-income	11	6%	11	4%	4	3%	19%
Moderate-income	59	31%	49	17%	13	10%	21%
Middle-income	46	25%	77	27%	45	33%	25%
Upper-income	72	38%	146	52%	74	54%	35%
TOTAL	188	100%	283	100%	136	100%	100%

Source: FFIEC, 1996 HMDA Disclosure Statement.

Small Business and Small Farm Lending

FKNB’s overall volume of loans to small businesses and small farms is excellent. *Table 12* shows that in 1996, the bank originated a total of 730 small business and small farm loans approximating \$34 million within its assessment areas. This compares favorably with national statistics for commercial banks of comparable asset size (\$250 million to \$999 million) which show an average volume per bank of 540 loans. FKNB’s annualized volume of 767 or \$44 million as of October 23, 1997 represents an increase from 1996.

Table 12

Loans to Small Businesses and Small Farms				
Type of Loan	K/M/H Assessment Area		Mansfield MSA Assessment Area	
	# Loans	Dollars (000's)	# Loans	Dollars (000's)
Small Business	540	\$29,185	30	\$1,164
Small Farm	157	\$3,770	3	\$23
TOTAL	697	\$32,955	33	\$1,187

Source: 1996 CRA Disclosure Statement.

Table 13 shows that most small business loans were made to businesses with revenues less than \$1 million and that all small farm loans were made to small farms with revenues under \$500,000.

This compares favorably to national statistics compiled from data required to be submitted to the FFIEC on small business and small farm loans. These statistics show that on the average, 56% of small business loans and 88% of small farm loans were made to firms with revenues under \$1 million or \$500,000, respectively.

Table 13

Distribution of Loans to Businesses and Farms of Different Sizes				
Size of Revenues	K/M/H Assessment Area		Mansfield MSA Assessment Area	
	% Loans	% Dollars	% Loans	% Dollars
Small Business (less than \$1MM)	91%	73%	100%	100%
Small Farm (less than \$500M)	100%	100%	100%	100%

Source: 1996 CRA Disclosure Statement.

Community Development Lending

FKNB has made an adequate level of community development loans. Community development loans are those that have as their primary purpose community development; have not been considered elsewhere in this evaluation; and benefit the bank's assessment areas or a broader regional area. The bank originated two loans totaling \$2.5 million for community development purposes in 1996. Both of these loans were made to local firms for business expansion which resulted in significant permanent job creation targeted at low- and moderate-income individuals. This dollar amount of community development lending is comparable to that of two other similarly situated institutions of similar size that we identified within the state.

Innovative or Flexible Lending Practices

In the normal course of business, the bank maintains flexible terms in its lending. Frequently, accommodations are made to satisfy customer's special circumstances relative to income and loan amount. Lenders are given the discretion to make loans below the minimum loan amount of \$1,000 to accommodate specific customer needs.

FKNB offered a program that provided favorable lending terms to local small business owners that wished to participate in the Mt. Vernon Downtown Revitalization program. The program is a 50/50 match of grant and private money. The program allowed business owners to obtain private funds by borrowing from the bank with relaxed terms. Eleven loans totaling approximately \$123,000 have been made as part of this program. FKNB offered a similar program in conjunction with the Mt. Gilead Revitalization program. One loan for \$51,000 was made as part of this program.

FKNB participates in the Farm Home Guaranty program which provides for underwriting with more relaxed debt-to-income ratios, no down payment and more liberal credit standards. Twenty-six loans totaling \$1,549,000 were made in 1996, and seven loans totaling \$439,000 were made in 1997. FKNB also participates in the State of Ohio Ag-Linked Deposit program which allows the bank to make loans at reduced rates. As part of this program, FKNB made 16 loans for \$877,000 in 1996, and 20 loans for \$1 million in 1997. In addition, FKNB advertised its participation in a state grant program for first time home buyers but received no applications. This is consistent with comments from community contacts about under-utilization of these types of programs by people in the community.

INVESTMENT TEST

FKNB investment activity is rated Low Satisfactory based on the following:

- Participation in qualified community development investments and grants has been adequate, although not in a leadership position.
- There has been a low level of investment in the Mansfield MSA assessment area.
- Use of innovative or complex investments has been limited.

Investment and grant activity:

FKNB's level of qualifying community development investments has been adequate overall considering the limited opportunities available in the area. Investment in the Mansfield MSA assessment area has been low compared with the amount invested in the K/M/H assessment area.

The bank consistently makes donations to a variety of qualified community organizations. The majority of donations given since the last CRA evaluation have been made in the K/M/H assessment area, with less than 2% made in the Mansfield MSA assessment area. Total qualifying donations in 1994, 1995 and 1996, were \$23,000, \$24,000 and \$15,000, respectively. As of November 11, 1997, the bank had donated approximately \$15,000 for the current year. Examples of organizations receiving these donations in the K/M/H assessment area include the United Way, Knox County Food for the Hungry, the Mid-Ohio Small Business Development Center, the Salvation Army and the YMCA. Organizations in the Mansfield MSA assessment area include the Richland County Habitat for Humanity and the Minority Business Enterprise Council.

During 1997, the bank's holding company purchased investment interests in the Ohio Equity Fund Limited Partnerships. The purpose of these limited partnerships is to invest in local housing projects that create new LMI housing units. These LMI housing projects are located in several counties throughout Ohio, including one in Knox County. Approximately \$600,000 of this investment was allocated to this bank.

The bank's participation in and donations to community grant projects is adequate. Since the prior CRA evaluation, the bank contributed \$3,000 to cover costs involved with applying for and obtaining local, state and federal grant monies used for community revitalization and improvement in the K/M/H assessment area. In addition, bank employees volunteered their time and expertise

to assist local government officials in obtaining these grants. These efforts helped Knox County receive approximately \$700,000 in grant money for improvements and general revitalization in downtown Mt. Vernon, which is located in a moderate-income tract.

Responsiveness to credit and community development needs:

FKNB displays an adequate responsiveness to credit and community development needs. The bank participated through its holding company in creating new units of LMI housing by purchasing the low-income housing credits mentioned above and has made donations to Habitat for Humanity. These activities directly responded to needs identified by community contacts for development of additional low-income housing.

Use of innovative and/or complex investments:

FKNB has not used any innovative or complex investments to support community development initiatives. Investments made by the bank are common, but valuable to the bank's assessment areas.

SERVICE TEST

FKNB's service test is rated High Satisfactory based on the following:

- The bank has readily accessible retail delivery systems, offers reasonable banking services and provides an adequate level of community development services.

Overall, FKNB's retail services and delivery systems are appropriate and consistent for both assessment areas. Retail services consist primarily of standard products offered through readily accessible delivery systems. Business hours are reasonable and are consistent at each office location. FKNB provides an adequate level of community development services.

Accessibility of Delivery Systems:

The bank's systems for delivering retail banking products and services are appropriate. The bank's offices are well dispersed throughout each assessment area. The Mansfield MSA assessment area has no low- or moderate-income tracts. The bank's two offices in this assessment area are located in a middle-income tract and an upper-income tract. The K/M/H assessment area has two moderate-income tracts of a total of 23 tracts. Two of the seven offices the bank operates in this assessment area are located in the two moderate-income tracts. Offices in this assessment area are strategically placed in or near the county's seat and are accessible to the majority of county residents.

Alternative Delivery Systems:

The bank maintains a reasonable number of alternative delivery systems. These systems include: access to an ATM network, DirectPay services, and telephone banking. In addition, loan originators are willing to take applications outside of the conventional office environment.

The bank maintains 11 ATMs throughout both assessment areas. Machines are located in each banking office and one machine is located on the campus of Kenyon College. The bank subscribes to the MAC ATM network, which enables customers to transact banking through a high number of machines nationwide.

The bank's automated telephone banking system gives customers access to their deposit accounts and the ability to initiate transactions 24 hours a day from any location. The bank's DirectPay program allows consumers access to automatic bill paying. DirectPay also allows businesses of all sizes to make payroll deposits, transfer funds, and pay state and federal taxes electronically.

Reasonableness of Services:

Business hours are reasonable and are the same for all offices regardless of location. Hours were expanded in mid-1997, and they are now one hour to one and one-half hours longer than other institutions in both assessment areas. This includes Saturday mornings.

Community Development Services:

On occasion, the bank has provided technical assistance to community improvement organizations. A senior bank lending officer presented information on affordable housing and personal budgets on four occasions during 1996 and 1997. These presentations were done as part of seminars sponsored by local community groups. In addition, bank employees are volunteering their lending expertise by assisting in the decision making process for the Morrow County revolving loan fund, which provides needed start-up funds to small businesses. The bank was also instrumental in the development of the Community Resource Center in Mt. Vernon. This group consists of local business people and government officials, and is designed primarily as an informal forum to discuss community needs and resources available to meet these needs. The idea for the scattered-home program that created several units of LMI housing originated in this forum.

Changes in Branch Locations:

There have been no branch openings or closings since the last CRA evaluation.

Fair Lending Review

No violations of the substantive provisions of antidiscrimination laws and regulations were identified. The institution's fair lending policies, procedures, training programs and internal assessment efforts have been effective in assisting lenders in these issues.