



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**September 15, 2004**

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

**The Peoples National Bank of New Lexington  
Charter Number 13596**

**110 North Main Street  
New Lexington, Ohio 43764**

**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

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the (CRA) performance of The Peoples National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 15, 2004. 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:

The institution has a **SATISFACTORY** record of meeting community credit needs.

- The bank's current and 22-quarter loan-to-deposit ratios are reasonable and commensurate with those demonstrated by local peer banks.
- Analysis of the bank's loans in conjunction with its performance context indicates that a majority of the bank's loans are made within the identified assessment area and shows reasonable dispersion by both borrower income and income geography.

### DESCRIPTION OF INSTITUTION

Peoples National Bank (PNB) is a wholly owned subsidiary of Peoples National Bancshares, Inc, a one bank intrastate holding company located in New Lexington, Ohio. The main office of PNB is located approximately 50 miles southeast of Columbus, Ohio, in the City of New Lexington, Ohio, the Perry County seat. The bank's primary business focus is retail/commercial banking and it offers traditional products and services through a total of four full service offices. The most recent office was opened in Thornport, Ohio, 21 miles northwest of New Lexington, during 2002. PNB has never closed a branch. All but one office contain an automated teller machine (ATM) to provide 24-hour banking. PNB also has three stand alone ATMs in separate locations in Perry County. Currently no legal or economic impediments exist that could restrict the institution's ability to serve the community's credit needs. The bank earned a rating of Satisfactory at the prior CRA examination completed in February 1999.

As of June 30, 2004, PNB reported total assets of \$85.3 million, Tier One capital of \$8.7 million, with net loans representing about 79% of assets. Loans for one-to-four family residential

housing purposes represented about 59% of gross loans, with the remainder divided among loans having commercial (22%) and individual (19%) purposes.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank currently has one AA, which represents all Census Tracts (CTs) located in Perry County and does not include any Metropolitan Statistical Areas (MSA). PNB currently holds about 27% of all AA deposits, which makes it the largest holder of AA deposits according to the June 30, 2003 FDIC market share report. The AA completely surrounds the bank's offices, meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. According to 1990 and 2000 Census data, the AA contained a total of six CTs. The 1990 Census data reflected four moderate- and two middle-income CTs whereas the 2000 Census data reflected two moderate- and four middle-income CTs.

The overall economic condition in the AA is weak, with unemployment in Perry County of 9.4% as of August 2004. Unemployment has historically and continues to run significantly above the state and national levels of 5.8%, and 5.4%, respectively, for the same period. Primary industries include local government, manufacturing, and retail trade. Current large employers include the New Lexington, Northern, Southern, and Crooksville Boards of Education, Continental Teves/ITT Industries, and Ferro Corporation. One of the largest employers in the community closed operations during 2004 and ITT has reduced its workforce significantly. To enhance development, encourage business relocations and start-ups, and create job growth, the Perry County Community Improvement Corporation hired an economic development director in September 2004.

Overall competition for loans and deposits within the bank's marketing area is relatively aggressive, stemming from three small banks, a branch of a larger community/regional bank, and branches of two large national banks.

Per two community contacts, economic development remains a challenge due to the location, poor infrastructure, and lack of a local medical care. The county has no hospital or urgent care facility and has only one mile of four-lane highway. The county also must import water from Athens County and Licking County to meet its demand. Perry County continues to lack affordable (starter) housing units given the significant increase in housing costs. The community contacts could not identify any specific credit products or services that were needed and not adequately offered, and knew of no areas that were significantly underserved for credit related products. Discussions also indicated that opportunities for participation from area institutions in any type of low- and/or moderate- income sponsored programs are very limited.

### **1990 Census Information:**

The 1990 census shows that this AA contains a total population of 31,557. The AA notes a median family income of \$25,315 and contains about 8,734 families. The HUD 2002 Non MSA updated median family income for Ohio is \$48,700 (2001 and 2000 represented \$46,500 and \$45,300, respectively). The AA family total is made up of 26% low-income, 23% moderate-income, 22% middle-income and 29% upper-income families. Of the AA's 12,260 housing units, approximately 72% are owner occupied and each home has an average median value of \$37,805. Of the six CTs in this AA, zero are classified as either low-income or upper-income, four (67%)

are classified as moderate-income, and two (33%) are classified as middle-income. The table below summarizes the AA's income composition by families and geographies based on the 1990 census data.

<i>Families &amp; Geography</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
<b>Families</b>	<b>2,263</b>	<b>26%</b>	<b>1,999</b>	<b>23%</b>	<b>1,952</b>	<b>22%</b>	<b>2,520</b>	<b>29%</b>
<b>CTs</b>	<b>0</b>	<b>0%</b>	<b>4</b>	<b>67%</b>	<b>2</b>	<b>33%</b>	<b>0</b>	<b>0%</b>

*Source: 1990 Census Data*

**2000 Census Information:**

The 2000 census shows that this AA has noted modest changes in its income and geographic composition. The new census data shows the AA having the same number of CTs and a total population of 34,078. The AA notes a median family income of \$39,858 and contains about 9,414 families. The HUD 2003 Non MSA updated median family income for Ohio is \$50,600. The AA family total is made up of 20% low-income, 23% moderate-income, 26% middle-income and 31% upper-income families. Of the AA's 13,655 housing units, approximately 73% is owner occupied and has an average median value of \$72,863, which is a 93% (\$35,058) increase over the 1990 census figure. Of the six CTs in this AA, zero remains classified as low-income and upper-income, but two (33%) are now classified as moderate-income and, four (67%) are classified as middle-income. The table below summarizes the AA's income composition by families and geographies based on the 2000 census data.

<i>Families &amp; Geography</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
<b>Families</b>	<b>1,910</b>	<b>20%</b>	<b>2,184</b>	<b>23%</b>	<b>2,411</b>	<b>26%</b>	<b>2,909</b>	<b>31%</b>
<b>CTs</b>	<b>0</b>	<b>0%</b>	<b>2</b>	<b>33%</b>	<b>4</b>	<b>67%</b>	<b>0</b>	<b>0%</b>

*Source: 2000 Census Data*

**CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

As the evaluation period includes decades governed by both the 1990 and 2000 census data, performance analysis was segregated using two different lending samples to accommodate the changes in the demographic composition noted above. This situation primarily affects the areas of income and geographic dispersion. In these areas, loans with origination dates of January 1, 2003 and thereafter were compared to 2000 census data and loans originated prior to 2003 were evaluated using the 1990 census data.

**Loan-to-Deposit Ratio:**

PNB's loan-to-deposit (LTD) ratio of 92% as of June 30, 2004, and average LTD ratio over the last 22 quarters of 80% are reasonable and meet the requirements for satisfactory performance. For analysis purposes, PNB's current and 22-quarter average LTD ratios were compared with a

custom peer group consisting of three banks of similar size and purpose competing within the same AA. The analysis shows that PNB's LTD ratios were within both the peer group's current range of 63% to 138%, and the 22-quarter average range of 59% to 100%. In addition, the bank began a mortgage banking operation during the evaluation period, which resulted in the bank originating and selling another 31 loans for \$3.6 million. Adding back this amount would further enhance the bank's ratios.

**Lending in Assessment Area:**

The bank's makes a majority of loans within its identified AA. A sample of 80 home loans made during the evaluation period were reviewed to determine the number of home loans originated within the AA. The sample shows that approximately 81% of all home loans originated during this period were from inside the banks identified AA. Sampling was performed, as management does not internally provide the specific geographic information (CT) for each loan made, which is their option. The following table details the banks home loan lending within the AA.

<b>Residential Loans Originated in AA</b>										
<b>Sample Year</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
<b>2003-2004</b>	<b>34</b>	<b>85</b>	<b>6</b>	<b>15</b>	<b>40</b>	<b>2,222</b>	<b>78</b>	<b>613</b>	<b>22</b>	<b>2,835</b>
<b>Prior to 1/1/03</b>	<b>31</b>	<b>78</b>	<b>9</b>	<b>22</b>	<b>40</b>	<b>1,763</b>	<b>72</b>	<b>685</b>	<b>28</b>	<b>2,448</b>
<b>Totals</b>	<b>65</b>	<b>81</b>	<b>15</b>	<b>19</b>	<b>80</b>	<b>3,985</b>	<b>75</b>	<b>1,298</b>	<b>25</b>	<b>5,283</b>

*Source: Loan sample*

In addition, a sample of 41 (21 from 2003-2004 and 20 prior to 2003) commercial purpose loans made within the review period was tested for performance in this area. Findings in this area further document that the bank makes a majority of its loans within the identified AA, as 34 (18 from 2003-2004 and 16 from 2002 or earlier) or 83% of the sampled commercial loans were made inside the identified lending area.

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

The distribution of residential real estate and business lending reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers, and businesses of different sizes and is reflective of overall satisfactory performance.

<b>Borrower Distribution of Residential Real Estate Loans in AA</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Sample Year</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
<b>2003-2004*</b>	<b>20</b>	<b>12</b>	<b>23</b>	<b>24</b>	<b>26</b>	<b>38</b>	<b>31</b>	<b>26</b>
<b>Prior to 1/1/03**</b>	<b>26</b>	<b>13</b>	<b>23</b>	<b>29</b>	<b>22</b>	<b>23</b>	<b>29</b>	<b>35</b>

*Source: Loan sample*  
*\* 2000 Census data*  
*\*\* 1990 Census data*

According to the sample of loans made on or after January 1, 2003, approximately 12% of residential real estate loans were made to low-income families; the sample of loans made prior to 2003 revealed similar findings (13%). According to the demographic information obtained from 2000 and 1990 Census data, approximately 20% and 26% of families are considered low income, respectively. See the table above for detail. While bank percentages are less than those reflected in the Census data, we note that approximately 13% of the AA's low-income population is below the poverty line and would most likely not meet minimum credit standards to qualify for a residential mortgage loan. The low-income population below the poverty line has decreased from 19% according to the 1990 Census but remains high. The bank's level of residential lending to moderate-income families approximates or exceeds 1990 and 2000 Census demographic data results of 23%. Overall, this dispersion is acceptable and meets standards for satisfactory performance.

The bank's record of lending to businesses of different sizes reflects reasonable penetration (see table on the following page). Lending to small businesses, based on a sample of 21 loans originated in 2003 and 2004, exceeds the AA's percentage of businesses with revenues of less than or equal to \$1 million (83% vs. 69%) according to the 2003 Business Geodemographic Data. The bank's record of lending to small businesses based on a sample of 20 loans originated prior to January 1, 2003 is less than the AA's percentage of businesses with revenues of less than or equal to \$1 million (63% vs. 79%) according to the 2002 Business Geodemographic Data. When discussed with President Haning, he indicated that two of the loans in this sample had inaccurate financial information, which increased gross revenues. When the information is combined and an average is taken, we note that the bank's average reflects the average of Business Geodemographic Data. We therefore consider the bank's record of lending to businesses of different sizes to be satisfactory.

<b>Borrower Distribution of Loans to Businesses in the AA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
<b>% of AA Businesses</b>				
• 2003 –2004	69%	4%	27%	100%
• 2002 & prior	79%	4%	17%	100%
<b>% of Bank Loans in AA by #</b>				
• 2003 –2004 loans	83%	17%	N/A	100%
• 2002 & prior loans	63%	37%	N/A	100%
<b>% of Bank Loans in AA by \$</b>				
• 2003 –2004 loans	76%	24%	N/A	100%
• 2002 & prior loans	52%	48%	N/A	100%

Source: Loan sample, 2002 and 2003 Business Geodemographic Data

### Geographic Distribution of Loans

The bank’s distribution of loans throughout geographies of different income levels, including low- and moderate-income geographies exceeds the standards for satisfactory performance. The analysis below details the bank’s residential real estate lending activity in the different income geographies for the identified AA.

<b>Table 3 – Geographic Distribution of Residential Real Estate Loans in AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>
<b>Sample Year</b>								
<b>2003-2004</b>	N/A	N/A	29	62	71	38	N/A	N/A
<b>Prior to 1/1/03</b>	N/A	N/A	64	87	36	13	N/A	N/A

Source: Loan sample,  
 \* 2000 Census data  
 \*\* 1990 Census data.

Our review of commercial purpose loans also reflects that the distribution of loans throughout geographies of different income levels exceeds the standards for satisfactory performance. Of loans made in the AA in 2003 and 2004 and prior to 2002, 83% and 81%, respectively, were made to businesses located in moderate-income level CTs. These ratios exceed the 2000 and 1990 Census demographic data results for businesses located in moderate-income level CTs of 43% and 64%, respectively.

### Qualified Investments and CD Services

Based upon a review of information provided by the bank and a discussion with senior lending officer Tony Davis, the bank did not have any qualified investments or CD services.

**Responses to Complaints**

The bank has not received any complaints about its CRA performance during the review period.

**Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discrimination or other illegal credit practices.