



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 27, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lebanon Citizens National Bank
Charter No. 2360
2 North Broadway
Lebanon, Ohio 45036**

Office of the Comptroller of the Currency

**Central District Office
One Financial Place, Suite 2700
Chicago, Illinois 60605**

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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Lebanon Citizens National Bank prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agent.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of March 27, 1997. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF THE INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: **“Outstanding Record of Meeting Community Credit Needs”**

DESCRIPTION OF INSTITUTION

Lebanon Citizens National Bank (LCNB) is a \$369 million financial institution. The city of Lebanon is the county seat of Warren County and is located approximately 30 miles north of Cincinnati, Ohio. The main office is in Lebanon with ten branches in Warren County, one branch in Hamilton County, one branch in Clermont County, and one branch in Butler County. The bank also maintains automatic teller machines (ATMs) at nine of the branches and a cash dispensing ATM at the Lebanon Raceway. The bank has no branches in low income census tracts, one branch in a moderate income census tract, eleven branches in middle income census tracts, and two branches in upper income census tracts. The bank's loan portfolio is a mix of residential real estate loans (61%), commercial loans (24%), consumer loans (13%), and agricultural loans (2%).

There are no financial or legal impediments that affect the bank's ability to help meet the credit needs of its community. LCNB's last CRA rating as of February 13, 1995 was “Outstanding Record of Meeting Community Credit Needs.” This public disclosure is a review of the bank's CRA performance for 1995 and 1996.

DESCRIPTION OF DELINEATED COMMUNITY

The bank's delineated community (DC) consists of 68 census tracts in PMSA 1640 and PMSA 3200. Of the 68 census tracts, 29 are located in Warren County, 33 are located in Butler County, 3 are located in Clermont County, and 3 are located in Hamilton County. The 68 census tracts are characterized as follows: three low income (4%), thirteen moderate income (19%), thirty-one middle income (46%), twenty upper income (29%), and one with no income designation (2%). The census tract with no income designation is the location of the Lebanon Correction Facility. There are a total of 99,014 housing units in the bank's delineated community with 70,542 or 71% being owner occupied units.

The median family income for PMSA 1640 is \$36,658 and \$38,674 for PMSA 3200. The bank's delineated community has a population of 269,674. The distribution of families in income categories is as follows: 16% are low income, 16% are moderate income, 24% are middle income, and 44% are upper income. Local economy is considered stable and has experienced significant growth. Competition in the delineated community continues to be strong from branches of regional banks with headquarters in Cincinnati and Dayton and several smaller financial institutions.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **LCNB has taken affirmative efforts to determine the credit needs of its local community.**

LCNB continues to assess the credit needs of its local community through their Outreach Program. This program includes direct mailing of a CRA questionnaire to areas within their delineated community. The questionnaire was designed to solicit feedback from the community as to how well the bank is serving their community and if there are any products or services which are not offered but desired by individuals. A separate questionnaire is also completed by all employees on an annual basis to determine their involvement in the community and any feedback they have received from customers concerning the bank's products or services. As a result of this process, the bank identified a need for the following products/services not currently offered: account accessibility, lower minimum amount on certificate of deposits, and secured credit cards. In response to these needs management implemented a 24 hour bank by phone, lowered the minimum on certificate of deposits, and introduced a secured credit card product.

Ongoing contacts are maintained with a large range of individuals, community groups, business organizations and leaders, local government officials, and realtors. These contacts are also used to ascertain community credit needs and often result in meaningful participation in public programs.

Management has established a CRA Committee which meets on a monthly basis or more if necessary. The committee is responsible for monitoring the bank's CRA performance by ascertaining the credit needs of the community, reviewing CRA activities, and analyzing the geographic distribution of their loan portfolio. The CRA Committee is also responsible for reviewing the returned CRA questionnaires and directly contacting individuals that request to be contacted. As part of reviewing the CRA questionnaires, the committee researches suggestions for new products or services to determine if they are prudent and would satisfy a need of the community. Management regularly analyzes demographic data on its delineated community and adjacent areas in relation to its lending activities. The CRA Committee prepares a semi-annual self-assessment of their CRA performance. This assessment includes the following information: results of questionnaires, listing of employee involvement in the community, current projects/programs relating to CRA, results of geographic analysis of the loan portfolio, and recommendations to improve performance. The committee's self-assessment is presented to the Board of Directors.

The bank's credit products are well-suited to the credit needs of the community. The Board of Directors and senior management have demonstrated a willingness to explore and offer conventional products with flexible lending criteria to make credit more widely available to the bank's community. The bank has developed a "First Time Home Buyers Program" which was available at the previous examination. This program has been expanded to three types of products with varying underwriting criteria. These products feature a minimum downpayment of 3-5%, flexible requirements for funding closing costs, lower or no cash reserve requirements, and relaxed debt to income ratios. Some of these products have limitations on borrower income or location of the property. The bank also offers a 95% loan to value real estate product for customers that are not first time home buyers.

Assessment Factor C - The extent of participation by the institution's Board of Directors and senior management in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- **The Board of Directors and senior management are highly involved in planning, implementing, and monitoring the bank's CRA performance.**

The Board of Directors (BOD) adopts the CRA statement on an annual basis which incorporates their CRA goals and objectives. These goals and objectives are monitored by the CRA committee and incorporated into the bank's self-assessment. The BOD monitors the bank's CRA performance through reviews of the self-assessment completed by the committee on a semi-annual basis. The CRA statement meets the technical requirements of the regulation and has been expanded to include information about their CRA policy, program, and self-assessment process.

The BOD and senior management are involved in activities designed to develop, improve, and enhance the local community. Involvement includes association with: Certified Development Corporation of Warren County, Habitat for Humanity, United Way, Chamber of Commerce in numerous cities, and various other community organizations.

Management has consistently demonstrated efforts to explore a variety of products with special features or flexible criteria. These ideas are also discussed at the BOD level through discussions of the CRA Committee's recommendations to improve CRA performance.

CRA training for employees is conducted by the CRA officer or a member of the CRA committee twice a year.

The BOD has implemented a review process to ensure fair and nondiscriminatory treatment of all applicants occurs.

II. **MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **The bank has implemented an effective marketing program that is designed to inform all segments of the local community of financial services and products.**

The bank has a formal marketing program which is reviewed and approved by the BOD. The goal of the bank's marketing activities is "to reach every possible household in our delineated communities with the same advertising message, no less than one time per month".

Management uses a variety of medias to reach all areas in their delineated community. These medias include community and metro newspapers (paid and free publications), billboards, radio, yellow pages, direct mail, and statement stuffers.

Bank employees actively participate in local social and civic events and maintain a high profile within the community. Certain activities are designed to provide assistance to individuals in understanding credit underwriting standards and applying for credit. In conjunction with the "First Step Home Buyers Program" the bank began sponsoring seminars to educate individuals on the responsibilities of owning a home, how much they can afford, assistance with budgeting, and the process for applying for a home loan. Management has also developed a home study guide to provide to customers. Additional activities to educate the community include presentations made by bank employees to various groups such as local schools, junior achievement classes, Warren County Career Center, and Kiwanis.

The bank maintains adequate records of its marketing efforts. All advertisements are reviewed to ensure compliance with applicable regulations.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in the community.

- **LCNB's level of origination or mortgage, home improvement and small business and small farm loans within its community reflects a high level of responsiveness to needs identified within the community.**

LCNB offers a wide range of consumer and commercial loan products. The bank's primary business focus is consumer with residential real estate loans totaling 61% of the total loan portfolio. The 1996 CRA Statement correctly lists the credit products offered by the bank. These products are available throughout the entire delineated community.

The following table shows the volume of residential real estate lending from the bank's Home Mortgage Disclosure Act (HMDA) data for 1995 and 1996. Improved lending volume for refinances in 1996 is related to fluctuations in interest rates from the beginning of 1995 through 1996.

LOAN TYPE	1995		1996	
	#	\$ (in 000's)	#	\$ (in 000's)
Purchase	129	10,726	199	16,015
Refinance	225	16,083	373	28,848
Home Improvement	10	217	10	183
TOTAL	364	27,026	582	45,046

A substantial majority of these loans were located within the bank's delineated community. The following is a table of the number and dollar percentages of residential real estate loans within the bank's delineated community in 1995 and 1996.

LOAN TYPE	1995		1996	
	#	\$	#	\$
Purchase	89%	91%	89%	91%
Refinance	95%	91%	90%	89%
Home Improvement	90%	98%	100%	100%
TOTAL	93%	91%	90%	90%

The bank also sells mortgages in the secondary market (FHLMC). In 1995 the bank sold 6 loans totaling \$345,000. Five of the six loans were located inside the bank's delineated community. In 1996 the bank sold 2 loans totaling \$126,000 which were both located inside the bank's delineated community.

Prior to 1996 the bank was not separately tracking the origination of small business and small

farm loans. These loans were analyzed along with other commercial and consumer loans. As a result of the changes in the CRA regulation the bank began collecting data on their small business and small farm loans. The following table shows the bank's lending volume in number and dollars for 1996.

LOAN TYPE	1996	
	#	\$ (in 000's)
Small Business	263	29,116
Small Farm	32	1,299
TOTAL	295	30,415

Of the 263 small business loans, 206 or 78% were to businesses with revenues under \$1 million. All of the 32 small farm loans were to farms with revenues under \$1 million.

A substantial majority of these loans were located within the bank's delineated community. The following table details the number and dollar percentages of loans within the delineated community. The dollar percentage of small business loans was lower than the number percentage due to a few large dollar loans to larger businesses in the counties contiguous to Warren County.

LOAN TYPE	1996	
	#	\$ (in 000's)
Small Business	89%	71%
Small Farm	91%	91%

The bank also geo-codes and analyzes the volume of lending in the entire loan portfolio. The following table shows the lending volume within the delineated community for 1996. These figures include the residential real estate and small business/small farm loans detailed above.

	1996	
	#	\$ (in 000's)
Loan Portfolio	3,958	78,056

The percentage of the loans within the delineated community shows that a significant majority of the loans originated were from the bank's delineated community.

	1996	
	#	\$
Loan Portfolio	88%	80%

As part of the bank's geographic distribution analysis, reports are prepared to geo-code the entire deposit and loan portfolios by census tract. This allows the CRA committee to monitor the reinvestment that they are making into each census tract. The bank's reinvestment ratio in the 3 low income census tracts within their delineated community in 1996 ranged from 135% to 1,151%. In 1996, 86.58% of the bank's deposit base was inside the delineated community and 98.34% of the loan portfolio was inside the delineated community.

In order to serve the needs of all individuals in the community, the bank's loan policy does not require a minimum loan amount. The bank tracks the number of loans made that were under \$1,000. In 1995, the bank made 424 loans with an average amount of \$539.97. In 1996, the bank made 408 loans with an average loan amount of \$406.33.

Assessment Factor J - The institution's participation in government-insured, guaranteed or subsidized loan programs for housing, small businesses or small farms.

- **LCNB participates in a number of government-insured and guaranteed loan programs.**

The bank participates in a variety of government loan programs. These programs include: SBA guaranteed, SBA-540, State of Ohio Agricultural Link Deposit Program, Withrow Link Deposit Program, and student loans.

In 1995 the bank made 3 loans totaling \$777,020 and in 1996 the bank made 1 loan totaling \$250,200 in the SBA program.

The Withrow Link Deposit Program is a State of Ohio program designed to provide small businesses with below market rate operating funds. In 1995 the bank made 1 loan totaling \$157,355 under this program. There were no loans originated under this program in 1996.

The bank also participates in the State of Ohio Agricultural Link Deposit Program. This program allows farmers to borrow at a 3% discount when the State of Ohio deposits a like amount in a certificate of deposit with the bank. In 1995 the bank made 2 loans totaling \$85,000 and in 1996 made 2 loans totaling \$155,000 under this program.

The bank also offers subsidized government insured student loans. In 1995 the bank made 80 student loans and in 1996 they made 42 loans.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

- **The bank's delineated community is reasonable, meets the purpose of the CRA and does not exclude low- and moderate-income neighborhoods.**

The delineated community includes all of Warren County and portions of Butler, Clermont, and Hamilton counties. The geographic distribution of lending supports the bank's delineated community.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- **The geographic distribution of the institution's credit extensions, applications and denials demonstrates a reasonable penetration throughout the delineated community.**

In 1995, the bank received residential real estate applications from 54 of the 68 census tracts located within its delineated community. The bank originated loans in all of the 54 census tracts that received applications. Twelve of the fourteen census tracts that did not have applications were in Butler County. The bank did not have a branch in this extremely competitive market until mid-1993. Four of these twelve census tracts that did not receive applications have a low number of owner occupied units (less than 500). The other two census tracts that did not receive applications were in Warren County with one census tract being the location of the corrections facility. The bank received applications and originated loans in 11 of 16 low or moderate income census tracts. The five low or moderate income census tracts that did not receive applications were in Butler County and had less than 700 owner occupied units.

In 1996, the bank received residential real estate applications from 63 of the 68 census tracts. Real estate loans were originated in 62 census tracts within its delineated community. Applications were received and loans were originated from 14 of 16 low or moderate income census tracts. Three of the five census tracts which showed no applications contained very low levels of owner-occupied units and one was the location of the corrections facility.

The following table is the distribution of real estate loans between census tracts within the bank's delineated community. The majority of the loans were made to borrowers in middle income census tracts where 46% of the owner occupied units are located.

Geographic Distribution of Real Estate Loans (inside DC)								
Year	Low Income Census Tract		Moderate Income Census Tract		Middle Income Census Tract		Upper Income Census Tract	
	#	\$	#	\$	#	\$	#	\$
1995	0.3%	0.1%	12.7%	9.5%	71.6%	75.1%	15.4%	15.3%
1996	0.6%	0.3%	8.4%	6.8%	75.0%	75.9%	16.1%	17.0%
OOU *	2%		10%		46%		42%	

* OOU = Percentage of owner occupied units

The distribution of real estate loans among borrowers of different income levels was also reviewed. This was compared to the percentage of those families in the delineated community.

The percentage of lending to low and moderate income families combined is comparable to the percentage of those families in the delineated community.

Distribution of Real Estate Loans Among Individuals (inside DC)								
Year	Low Income		Moderate Income		Middle Income		Upper Income	
	#	\$	#	\$	#	\$	#	\$
1995	8.9%	3.7%	21.0%	13.7%	27.5%	23.4%	40.8%	57.7%
1996	9.6%	5.3%	20.1%	13.4%	25.6%	23.3%	41.9%	55.2%
DC*	16%		16%		24%		44%	

* DC = Distribution of families among income levels in delineated community

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- **Offices are reasonably accessible to all segments of the community.**

LCNB operates 14 offices throughout their delineated community. Branch locations and hours are convenient and meet the needs of their customers. Products and services are available at all locations.

Since the last examination the bank has opened one full service branch in northern Warren County which serves the communities of Springboro and Franklin. This branch was opened in July of 1996. In November 1996, the Maineville branch was destroyed by fire. This

location has been temporarily closed until a new building can be constructed. Management plans to re-open this branch by mid-1997. The impact to customers from the temporary loss of this branch has been minimal as the bank has three branches within ten miles.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **LCNB generally solicits credit applications from all segments of its community, including low and moderate income areas.**

The Board of Directors and senior management have developed adequate policies, procedures, and training programs supporting non-discrimination in all aspects of the credit process. A secondary review process is used to ensure the bank does not illegally discourage or pre-screen applicants. Management also closely monitors denial rates to ensure that no one is discouraged from applying for credit.

Our review of the bank's fair lending practices did not reveal disparate treatment in the credit application or granting processes.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **The institution is in substantial compliance with all provisions of the anti-discrimination laws and regulations.**

As a result of our fair lending review, no evidence or instances of prohibited discrimination or other illegal credit practices have been identified. The bank's external auditor has not identified any evidence of disparate treatment in their regular fair lending reviews.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local

community development and redevelopment projects or programs.

- **LCNB maintains a high level of participation in development and redevelopment projects within its community.**

The following are community development/redevelopment projects or programs the bank has been involved in since the last examination.

- LCNB has posted bonds to assist the Warren County Community Services, Inc. in receiving HUD approval for subsidized senior citizen housing projects.
- LCNB has set aside funds to participate in the Warren County First Time Home Buyers Assistance Program. This program assists individuals with 80% or less of the median family income with downpayment and closing costs.
- Invested in municipal bonds in their assessment area totaling \$4,400,220 as of 12-31-96.
- Approved a real estate loan for a non-profit shelter which provides shelter, food, and clothing to the homeless in Middletown.
- Donated funds to the South Lebanon Union Village Park Fund.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions, and other factors.

- **There are no factors that would impede the bank's ability to meet the community credit needs.**

The institution is generally supportive of specific projects to promote economic revitalization and growth, consistent with its size, financial capacity, location, and current economic conditions.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- **LCNB is affirmatively engaged in additional activities that contribute to the community's development.**

LCNB employees continue to be involved in a variety of educational, cultural, civic, and social service organizations that improve the community. Numerous monetary donations have also been made to support a wide range of local organizations.

Since the previous examination, management has developed a loan program for 4-H/Future Farmers of America members. Members may borrow up to \$500 for a Warren County 4-H fair project. The loan is at 6% and is signed by the parents or legal guardian. The bank made 17 loans for \$7,540 in 1995 and 26 loans at \$11,125 in 1996 under this program.