



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 7, 2008**

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

Brookville National Bank  
Charter Number 14141

225 West Upper Lewisburg-Salem Road  
Brookville, Ohio 45309

Office of the Comptroller of the Currency

Central Ohio Field Office  
4555 Lake Forest Drive, Suite 610  
Cincinnati, Ohio 45242-3760

**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.

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

Brookville National Bank (BNB) has a **SATISFACTORY** record of meeting community credit needs.

- This institution meets the requirements for satisfactory performance for all applicable performance criteria.
- The distribution of loans reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. The analysis of loans in our sample demonstrates satisfactory performance for the bank's assessment area (AA).
- BNB is responsive to its community's credit needs as a majority of the loans in our sample were made within the bank's AA. Eighty percent of the number of loans in our sample was made inside the bank's AA.
- The bank's current and 20-quarter average loan-to-deposit ratios are reasonable given the bank's size, financial condition, and AA credit needs.

## **SCOPE OF EXAMINATION**

Our office conducted a full scope Community Reinvestment Act (CRA) examination to assess BNB's record of meeting the credit needs of its entire community, including low- and moderate-income areas. We used the small bank CRA examination procedures and considered information from January 1, 2005 through December 31, 2007 (evaluation period).

The bank's performance in residential real estate (purchase, refinance, and home improvement loans) and business (commercial and commercial real estate loans) lending is considered foremost in this CRA examination. These are the bank's primary lending products as determined through discussions with management and review of the bank's loan originations during the evaluation period and outstanding loan balances at September 30, 2007.

We used the data that the bank reported for residential real estate loans under the Home Mortgage Disclosure Act (HMDA) for years 2005 through 2007. We conducted a review of the 2005 and 2006 HMDA data during prior examinations and reviewed the accuracy of the 2007 data during this examination. We found the HMDA data for those time periods to be accurate and reliable.

Loan samples were taken from loans originated during the evaluation period. To evaluate the bank's performance in residential real estate lending, we used all of the bank's residential real estate loans reported on the HMDA loan application register from the evaluation period. We took a random sample of twenty business (commercial and commercial real estate) loans originated during the evaluation period. We used the business loan files first to perform the Analysis of Lending in the AA and then disregarded any of the loans not originated in the AA. Additional loans within the AA made during the evaluation period were added to the business

loan sample to derive the 20-item sample in the AA, which was used to perform the Borrower Distribution analysis.

## DESCRIPTION OF INSTITUTION

Brookville National Bank (BNB) is a \$78 million financial institution which is wholly-owned by BNB Bancorp, Inc., a one-bank holding company. The holding company does not originate loans directly, only indirectly through BNB. Both the holding company and the bank are located in Brookville, Ohio, approximately 70 miles north of Cincinnati. BNB operates two banking offices. The main and branch offices are both located in census tract 1301.02, a middle-income census tract within Metropolitan Statistical Area (MSA) 19380. The branch office is a limited service branch. Both offices have drive-up facilities. Automatic teller machines (ATMs) are located at the main office and at a local grocery store in Brookville, Ohio.

BNB's loan portfolio totals approximately \$39 million, with net loans representing about 50% of total assets as of September 30, 2007. Tier One Capital was \$10.3 million for the same time period. The bank offers a variety of standard lending products to accommodate the credit needs of borrowers within their AA. The bank's primary loan products are residential real estate loans and business loans (commercial and commercial real estate loans) as determined through discussions with management and by loan originations during the evaluation period and outstanding loan balances as of September 30, 2007. See the tables below for more details.

<b>Primary Loan Types</b>		
<b>Loans originated/purchased from January 1, 2005 to December 31, 2007</b>		
<b>Loan Type</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>	<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>
<b>Residential Real Estate Loans</b>	<b>12%</b>	<b>29%</b>
<b>Business Loans: Commercial and Commercial Real Estate Loans</b>	<b>13%</b>	<b>50%</b>
Individual Consumer Loans	74%	20%
Farm Loans	1%	1%
All Other Loans	Less than 1%	Less than 1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*Source: Internal bank reports as of December 31, 2007.*

<b>Total Loans Outstanding in the Bank's Portfolio As of September 30, 2007</b>		
<b>Loan Type</b>	<b>Outstanding Balance</b>	<b>% by Dollars of Loans</b>
<b>Residential Real Estate Loans</b>	<b>\$18,763</b>	<b>48%</b>
<b>Business Loans: Commercial and Commercial Real Estate Loans</b>	<b>\$13,701</b>	<b>35%</b>
Individual Consumer Loans	\$ 4,489	11%
Farm Loans	\$ 1,311	3%
All Other Loans	\$ 1,053	3%
<b>Total</b>	<b>\$39,317</b>	<b>100%</b>

*Source: Consolidated Report of Condition (Call Report) filed by the bank as of September 30, 2007.*

There are no financial or legal impediments that affect the bank's ability to help meet the credit needs of its AA. BNB's CRA rating as of January 15, 2003, was "Satisfactory Record of Meeting Community Credit Needs." The bank's lending performance for years 2005, 2006, and 2007 were reviewed in detail during this examination.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The bank's AA consists of eight census tracts in the Dayton, Ohio MSA 19380. Six of the census tracts are located in the northwest corner of Montgomery County, with five of them in middle-income tracts (83%) and one is in an upper-income census tract (17%). The other two census tracts are middle-income and are located in Preble County. The two census tracts in Preble County are located in the eastern part of the county, and are adjacent and contiguous to Montgomery County.

The bank has one AA. Bank management selected this AA based on the bank's targeted lending territory and office locations. The AA meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies.

The Department of Housing and Urban Development (HUD) estimated the 2007 median family income for the AA at \$58,700. As of the 2000 U.S. Census, the median family income for the AA was \$51,271. See the table below for the number of families in the AA by income category and geography.

<b>AA INCOME COMPOSITION BY FAMILIES AND GEOGRAPHY</b>								
<b>Families &amp; Geographies</b>	<b>Low- Income</b>		<b>Moderate- Income</b>		<b>Middle- Income</b>		<b>Upper- Income</b>	
<b>Families</b>	1,849	16%	2,204	20%	2,675	24%	4,527	40%
<b>Census Tracts</b>	0	0%	0%	0%	7	87.5%	1	12.5%

*Source: 2000 U.S. Census Data, updated as of 2007.*

According to the U.S. Census, updated as of 2007, businesses with revenues of less than \$1 million accounted for 65% of all the business entities in the AA. The AA has a population of 38,960 with 87% of the population living in middle-income geographies and 13% in upper-income geographies. The AA has 15,770 housing units with 72% of those as owner-occupied. Of those owner-occupied units, 85% are located in middle-income census tracts and 15% in upper-income. There are no low or moderate income census tracts in the AA. The median housing value in the AA is \$108,204 with the average age of the housing at 44 years. Six percent of the families in the AA were living below the poverty level as of 2007.

The economic conditions of the AA continue to be stable, as identified through discussions with management. The AA is primarily rural, with the major industries in the AA being manufacturing, services, and government. Several large employers in the AA include General Motors Corporation, Wright Patterson Air Force Base, and Parker-Hannifin Corporation. As of December 2007, the unemployment rates for Montgomery (6.2%) and Preble (6.1%) counties were slightly higher than the state of Ohio's average rate of 5.8% and the national average rate of 4.8%.

Competition is strong within the AA and comes from branches of large regional banks, several local independent financial institutions, and credit unions. The bank's primary competitors, per discussion with bank management, are Fifth Third Bank, Huntington National Bank, and Brookville Building and Savings Association. BNB had less than one percent of the AA's market share of total deposits as of June 30, 2007.

Our discussion with a community leader (via one community contact with a representative from the Community Action Partnership of the Greater Dayton area) and bank personnel indicate that the community's credit needs are being adequately met. The credit needs of the community continue to be affordable housing and loans to small businesses.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

- **Based on the criteria for the CRA lending test, this bank's lending performance is satisfactory.**

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

- **The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs and meets the requirements for satisfactory performance.**

Since the prior CRA examination, BNB has had an average loan-to-deposit ratio of 52.95% over the last 20 quarters (December 31, 2002 to September 30, 2007). The bank's quarterly loan-to-deposit ratio ranged from a low of 46% at June 30, 2004, to a high of 58.17% at March 31, 2007. Since year-end 2005, the loan-to-deposit ratio has been greater than 55%. The average loan-to-deposit ratio for similarly situated banks in Montgomery and Preble counties in the bank's AA was approximately 70% over the same time period and the national peer average was 80% as of September 30, 2007. The loan-to-deposit ratios for similarly situated banks in Montgomery and

Preble counties ranged from 60% to 88%, with BNB being the lowest at 52.95%. The bank’s present loan-to-deposit ratio of 57.74% at September 30, 2007, is also below peer average. However, BNB’s ratio is improving and the credit needs of the community are being met by a combination of all the financial institutions in the AA. Management has made a decision to only originate mortgage loans with a loan-to-value of 80% or less, versus liberalizing lending standards to increase loan volume. Management also stated that their goal for their loan-to-deposit ratio is in the 60% to 65% range. In summary, the bank’s overall quarterly average and present loan-to-deposit ratios are reasonable given the bank’s size, financial condition, lending policies, and AA credit needs.

**Lending in Assessment Area**

- **The bank’s record of lending within their AA is reasonable and supports satisfactory performance with a majority of the bank’s lending inside the AA.**

As outlined in the description of the institution above, the bank’s primary loan types are residential real estate and small business loans (commercial and commercial real estate loans). We included all of the bank’s residential real estate loans reported from HMDA and sampled 20 business loans that the bank originated during the evaluation period. According to that sample, the bank made 80% of the number of loans in our sample within its AA. Table 1 details the bank’s lending within the AA by number and dollar volume. This table demonstrates that a majority of the loans in our samples were made inside the bank’s 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
	#	%	#	%		\$	%	\$	%	
Home Purchase	30	71%	12	29%	42	\$ 3,506	68%	\$1,676	32%	\$ 5,182
Home Refinance	46	77%	14	23%	60	\$ 4,300	73%	\$1,554	27%	\$ 5,854
Home Improvement	75	87%	11	13%	86	\$ 1,565	88%	\$ 205	12%	\$ 1,770
Business Loans	15	75%	5	25%	20	\$ 2,010	53%	\$1,799	47%	\$ 3,809
Totals	166	80%	42	20%	208	\$11,381	68%	\$5,234	32%	\$16,615

*Source: 2005, 2006, and 2007 data reported under HMDA and sample of business loans from the same time period.*

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

- **The bank’s lending to borrowers of different income levels and businesses of different sizes is reasonable and reflects satisfactory performance.**

The distribution of residential real estate lending reflects reasonable penetration among

individuals of different incomes, including low- and moderate-income borrowers. Based on the residential real estate loan sample, which included all HMDA reportable loans from 2005 – 2007, the distribution to borrowers in different income categories reflects penetration to all income categories. Lending to low-income borrowers (14%) is slightly less than the percentage of low-income families in the AA (16%), however lending to moderate-income borrowers (29%) is substantially higher than the moderate-income families in the AA (20%). As identified earlier in this report, families living below the poverty level in this AA was 6%. Those families living below the poverty level would likely not meet BNB’s credit standards for home mortgage loans.

Twenty-three percent of the occupied housing units in the AA are rental units. Five percent of the housing units in the AA are vacant. None of the census tracts in the bank’s AA are low- or moderate-income tracts. There are also several other banking institutions in the area providing additional competition for loans. Overall, the bank’s performance in residential real estate lending reflects satisfactory performance.

Based on the business loan sample, the distribution of lending to businesses of different sizes is reasonable and supports satisfactory performance. A majority of the loans in our sample (85% by number) were made to small businesses with annual gross revenues of less than \$1 million.

Refer to Tables 2 and 3 for specific details on the loans made to low- and moderate-income borrowers and to businesses with annual gross revenues of less than \$1 million.

<b>Table 2 – Borrower Distribution of Residential Real Estate Loans in the Assessment Area</b>										
Borrower Income Level	Low		Moderate		Middle		Upper		Income Not Available	
	% 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	% of AA Families	% of Number of Loans
Home Purchase		0%		20%		20%		57%		3%
Home Refinance		4%		28%		18%		46%		4%
Home Improvement		26%		33%		21%		16%		4%
Total Residential Real Estate Loans	16%	14%	20%	29%	24%	20%	40%	33%	0%	4%

Source: Data reported under HMDA for 2005 – 2007 and U. S. Census data, updated as of 2007.

<b>Table 3 – Borrower Distribution of Loans to Businesses in the Assessment Area</b>				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than or equal to \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65%	4%	31%	100%



% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	83%	17%	0%	100%

*Source: Business loan sample and U.S. Census data, updated as of 2007.*

### **Geographic Distribution of Loans**

Given the demographics of the bank's AA, which are no low- or moderate-income census tracts and only one upper-income census tract, analysis of the bank's geographic distribution of lending would not be meaningful.

### **Responses to Complaints**

BNB has not received any complaints about its performance in helping to meet assessment area credit needs during this 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.