



## **PUBLIC DISCLOSURE**

January 21, 2014

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

Kingston National Bank  
Charter Number 9536

2 North Main Street  
Kingston, Ohio 45644

Office of the Comptroller of the Currency

Westlake Center  
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.

Kingston National Bank (“KNB” or “bank”) exhibits a **Satisfactory** record of meeting its community’s credit needs.

- The bank’s 22-quarter average loan-to-deposit ratio is reasonable and commensurate with those demonstrated by local area banks.
- The bank originates a majority of its loans within the assessment areas (AAs).
- Lending to borrowers of different income levels reflects reasonable penetration.
- KNB’s performance in lending to geographies of different income levels exhibits reasonable dispersion.

## SCOPE OF EXAMINATION

The OCC conducted a full scope Community Reinvestment Act (CRA) evaluation to assess the bank’s record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) areas and borrowers. We used small bank procedures to evaluate the bank’s performance.

The bank’s primary lending products are agricultural loans, business purpose (commercial/commercial real estate) loans, and residential real estate loans as reflected in the table below. We based this determination on the volume of loan originations during the evaluation period of January 1, 2012 to December 31, 2013.

Loan Type	% by Dollars of Loans Originated		% by Number of Loans Originate	
	\$000’s	%	# of Loans	%
Agricultural Loans	\$79,436	49.76%	738	34.98%
Commercial/Comm RE	\$50,840	31.84%	410	19.43%
Residential Real Estate	\$22,200	13.91%	206	9.76%
Consumer	\$7,173	4.49%	756	35.83%
<b>Total</b>	<b>\$159,649</b>	<b>100%</b>	<b>2,110</b>	<b>100%</b>

Source: Internal bank reports of loans originated from January 1, 2012 through December 31, 2013.

KNB has designated two AAs, as detailed under the *Description of Assessment Areas* section. To perform the analysis of lending inside the AAs, we used the Home Mortgage Disclosure Act (HMDA) data from 2012 and 2013 for residential real estate loans and randomly sampled 40 loans each for business and agricultural loans from those originated during the evaluation period. To perform the borrower distribution and geographic analysis reviews, we removed any loans in the original sample that were outside the AAs. We selected additional loans located inside the

AAs as necessary to ensure the sample included at least 20 loans per product for each AA. 2010 U.S. Census data was used to determine AA demographics.

## DESCRIPTION OF INSTITUTION

KNB is a wholly owned subsidiary of Kingston Bancshares, Inc. The main office of KNB is located approximately 50 miles southeast of Columbus, Ohio, in the Village of Kingston in Ross County. The bank's primary business focus is retail/commercial banking, offering traditional products and services through five full-service branches located in Ross, Pickaway, and Fairfield counties. Since the previous evaluation, KNB has added a branch in Chillicothe, Ohio (January 2013) and has not closed any branches. Overall, competition for loans and deposits within the bank's marketing area is moderate to strong, coming primarily from several local community banks, as well as branches of large, regional institutions. Currently no legal or economic impediments exist that could restrict the institution's ability to serve the community's credit needs. The bank was assessed a rating of satisfactory at the prior CRA examination dated April 14, 2008.

As of September 30, 2013, KNB reported total assets of \$227 million and Tier One capital of \$22 million, with net loans representing 67 percent of assets. The table below shows the bank's approximate loan mix as of September 30, 2013.

<b>Table 2 - Loan Mix as of September 30, 2013</b>		
Loan Type	\$ (000s)	Percentage
Residential Real Estate	\$ 58,955	38%
Agricultural	\$ 51,284	33%
Commercial/Commercial Real Estate	\$ 37,386	23%
Loans to Individuals	\$ 6,133	4%
Total	\$153,758	100%

Source: Uniform Bank Performance Report as of September 31, 2013.

## DESCRIPTION OF ASSESSMENT AREA

The bank currently has two AAs. One AA represents geographies in Pickaway and Fairfield Counties, which are located within Metropolitan Statistical Area (MSA) #18140 – Columbus, Ohio (MSA AA). The MSA AA consists of 15 census tracts and includes all of Pickaway County and two census tracts in Fairfield County. There is one low-income, three moderate-income census tracts, ten middle-income census tracts, and no upper-income census tracts in the AA. The bank has one branch located in each of these counties. Competition in the AA is strong with many national banks, savings and loan associations, and branches of large financial institutions located in the AA.

The second AA consists of non-MSA geographies in Ross and Hocking Counties (Non-MSA AA). The Non-MSA AA consists of all 17 census tracts in Ross County and 1 census tract in

Hocking County. There are no low-income census tracts, four moderate-income census tracts, eleven middle-income census tracts, and three upper-income census tracts in the AA. While the bank does not have a branch directly in Hocking County, there are three branches within Ross County: Kingston, Chillicothe, and Adelphi branches. Two of the Ross County branches are located in the northern tracts of the county, which are contiguous to the one tract in Hocking County, and the other branch, Chillicothe, is located in central Ross County. Competition in the AA is moderate with several national banks, savings and loan associations, and branches of large financial institutions located in the AA. Management and the Board adjusted the Non-MSA AA in 2013 following the opening of a branch in Chillicothe. As a result, the bank expanded the Non-MSA AA to capture all census tracts within Ross County. The adjustment to the Non-MSA AA was reasonable and well documented. The bank’s updated AAs are contiguous, meet the requirements of the regulation, and do not arbitrarily exclude any low- or moderate-income areas.

Community contacts indicated economic conditions within the AAs are fair. The credit needs of the AAs include affordable housing and small business lending. According to community contacts, local financial institutions are meeting those needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on the criteria for the CRA lending test, the bank’s lending performance is satisfactory.

### Loan-to-Deposit Ratio

KNB’s loan-to-deposit (LTD) ratio is reasonable given their size, financial condition, and AAs credit needs. Their 22-quarter average is 76.87 percent. This is comparable to the average LTD of 79.81 percent for similarly situated financial institutions in the bank’s AAs. Their highest quarterly average was 81.77 percent and their lowest quarterly average was 70.18 percent, which is reflective of the volume of agricultural lending.

### Lending in Assessment Area

A majority of KNB's lending activity occurs inside the bank's two AAs and supports satisfactory performance. In 2012 and 2013, the bank originated 82 percent by number and 78 percent by dollar within the bank's AAs, as shown by Table 3.

Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	222	83%	45	17%	267	\$21,104	83%	\$4,252	17%	\$25,356
Agricultural	13	65%	7	35%	20	\$1,577	43%	\$2,091	57%	\$3,668
Commercial	17	85%	3	15%	20	\$2,817	75%	\$930	25%	\$3,747
Totals	252	82%	55	18%	307	\$25,498	78%	\$7,273	22%	\$32,771

Source: HMDA data for 2012 and 2013. Loan sample; KNB loans originated January 1, 2012 to

December 31, 2013.

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

Lending to borrowers of different income levels and businesses and farms of different sizes reflect reasonable penetration.

Columbus MSA AA:

KNB’s record of lending to borrowers of different income levels and businesses of different sizes within the MSA AA reflects a reasonable penetration.

The bank’s distribution of residential real estate loans in the MSA AA reflects reasonable penetration among borrowers of different income levels. During the evaluation period, KNB originated 91 residential real estate loans within the MSA AA. Overall, 35 percent of the bank’s home loans were to low- and moderate-income borrowers. In addition, 11 percent of households in the AA live below the poverty level and may experience difficulty meeting the credit underwriting standards for home mortgage loans. See Table 4 for details.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21%	25%	23%	18%	24%	13%	32%	44%
Home Refinance		9%		9%		19%		63%
Home Improvement		26%		21%		16%		37%

Source: 2010 U.S. Census data and KNB’s HMDA loan data from January 1, 2012 through December 31, 2013.

KNB’s penetration of loans to small businesses in the MSA AA is reasonable. The bank originated 60 percent (by number) of their business loans to businesses with annual gross revenues of less than \$1 million, which was slightly below the demographic comparator of 73 percent of businesses in the AA of similar size.

KNB’s penetration of loans to small farms in the MSA AA is reasonable. The bank originated 83 percent (by number) of their farm loans to farms with annual gross revenues of less than \$1 million, which was slightly below the demographic comparator of 99 percent of businesses in the AA of similar size.

Non-MSA AA:

KNB’s record of lending to borrowers of different income levels and businesses of different sizes within the Non-MSA AA reflects reasonable penetration.

The bank’s distribution of residential real estate loans in the Non-MSA AA reflects reasonable penetration, as shown in Table 5. During the evaluation period, KNB originated 131 residential real estate loans within the Non-MSA AA. Overall, 21 percent of the bank’s home loans were to low- and moderate-income borrowers. A factor that may contribute to the lower penetration to low-income borrowers is that 16 percent of the households in the AA live below the poverty level and may experience difficulty meeting the credit underwriting standards for home mortgage loans.

<b>Table 7 – Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	21%	12%	20%	15%	21%	13%	38%	60%
Home Refinance		6%		4%		21%		69%
Home Improvement		5%		27%		18%		50%

Source: 2010 U.S. Census data and KNB’s HMDA loan data from January 1, 2012 through December 31, 2013.

KNB’s penetration of loans to small businesses in the Non-MSA AA is reasonable. The bank originated 62 percent (by number) of their business loans to businesses with annual gross revenues of less than \$1 million, which was slightly below the demographic comparator of 72 percent of businesses in the AA of similar size.

KNB’s penetration of loans to small farms in the Non-MSA AA is reasonable. The bank originated 85 percent (by number) of their farm loans to farms with annual gross revenues of less than \$1 million, which was slightly below the demographic comparator of 99 percent of businesses in the AA of similar size.

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion. The geographic distribution analysis reflects lending in most census tracts with no significant gaps identified.

Columbus MSA AA:

KNB’s distribution of loans in the MSA AA reflects reasonable dispersion.

The distribution of residential real estate loans shows more than reasonable dispersion, as shown by Table 6. During the evaluation period, KNB originated 91 residential real estate loans within the MSA AA. Overall, 13 percent of the bank’s home loans were to borrowers in low- and moderate-income census tracts.

<b>Table 6 – Geographic Distribution of Residential Real Estate Loans in the Columbus MSA AA</b>						
Census Tract Income Level	Low		Moderate		Middle	
Loan Type	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans
Home Purchase	3%	3%	12%	13%	85%	84%
Home Refinance		6%		9%		85%
Home Improvement		0%		5%		95%

Source: 2010 U.S. Census data and KNB’s HMDA loan data from January 1, 2012 through December 31, 2013.

The distribution of loans to businesses in LMI areas is reflective of reasonable dispersion. KNB made five percent of loans to low-income geographies and 10 percent to moderate-income geographies. This is in comparison to the four percent and 20 percent of businesses located in the respective geographies.

The distribution of loans to farms in LMI areas is reflective of reasonable dispersion. KNB made no loans in LMI areas; however, there are no farms in the AA located in low-income areas and only five percent located in moderate-income areas.

Non-MSA AA:

KNB’s distribution of loans in the Non-MSA AA is reflective of reasonable dispersion.

Distribution of residential real estate loans reflects reasonable dispersion. During the evaluation period, KNB originated 131 residential real estate loans within the Non-MSA AA. Overall, eight percent of the bank’s home loans were to borrowers in moderate-income census tracts. See Table 7 for details.

<b>Table 7 – Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA</b>						
Census Tract Income Level	Moderate		Middle		Upper	
Loan Type	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans	% of AA Owner occupied Housing	% of Number of Loans
Home Purchase	10%	10%	72%	48%	18%	42%
Home Refinance		6%		59%		35%
Home Improvement		5%		50%		45%

Source: 2010 U.S. Census data and KNB’s HMDA loan data from January 1, 2012 through December 31, 2013.

The distribution of loans to businesses is reflective of reasonable dispersion. KNB originated 24 percent of loans to businesses in moderate-income areas compared to 28 percent of businesses located in moderate-income areas.

The distribution of loans to farms is reflective of more than reasonable dispersion. KNB originated 10 percent of loans in moderate-income areas compared to the four percent of farms located in those areas.

### **Responses to Complaints**

Neither the bank nor our office has received any complaints about the bank's CRA performance during the review period.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.