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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

April 30, 2012

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

Eaton National Bank and Trust Co.  
Charter Number 7557

110 West Main Street  
Eaton, Ohio 45320

Office of the Comptroller of the Currency  
Central Ohio Field Office  
West Lake 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**

Eaton National Bank & Trust Company ("Eaton NB&T" or "Bank") exhibits a satisfactory record of meeting community credit needs. This rating is supported by the following:

- The bank's twenty-six quarter average and current loan-to-deposit (LTD) ratios are reasonable and commensurate with those demonstrated by local peer banks.
- Eaton NB&T is responsive to its community credit needs as a majority of the total loans we reviewed from our sample and the loans the bank reported on their Home Mortgage Disclosure Act (HMDA) loan application registers were made inside the bank's assessment area (AA).
- The distribution of loans reflects, given the demographics of the AA, reasonable penetration among borrowers of different income levels and businesses and farms of different sizes within the bank's AA.

## **SCOPE OF EXAMINATION**

The Office of the Comptroller of the Currency (OCC) conducted a full scope CRA examination of Eaton NB&T to assess their record of meeting the credit needs of its community. We used the small bank CRA examination procedures and considered information from January 1, 2009 through December 31, 2011, to perform our review.

The bank's performance in residential real estate, business (i.e., commercial and commercial real estate), and farm lending is considered foremost in this CRA examination. These loan types are the bank's primary lending products as determined through discussions with management and our review of the dollar volume of the bank's loan originations during the lending evaluation period. We used the data that the bank reported for residential real estate loans under the HMDA from January 1, 2010 through December 31, 2011 (evaluation period for residential real estate lending). We found the HMDA data for those time periods to be accurate and reliable. The evaluation period for the business and farm loan sample included loans originated from January 1, 2009 to December 31, 2011 (evaluation period).

To perform our analysis of lending inside the bank's AA, we randomly sampled twenty business and twenty farm loans originated during the evaluation period. To evaluate the bank's performance in residential real estate lending, we used all of the bank's originated residential real estate loans reported on the HMDA loan application register in years 2010 and 2011. Next, to perform the borrower distribution analysis, any loans in the original sample that were outside the bank's AA were removed from the original sample. Additional loans located in the AA were then selected as necessary to ensure at least 20 loans of each sampled loan type were used for the borrower distribution analysis.

Eaton NB&T originated one community development loan for \$825 thousand to New Housing Ohio, Inc. during the evaluation period. New Housing Ohio, Inc. provides affordable housing options for individuals in recovery from mental illness and/or substance addiction.

## DESCRIPTION OF INSTITUTION

Eaton NB&T is a \$190 million financial institution with its main office located in Eaton, Ohio. Eaton NB&T is wholly owned by Colonial Banc Corporation, a two-bank holding company, which is also located in Eaton. Eaton NB&T has one affiliate, Oculina Bank, a Savings and Loan financial institution located in Fort Pierce, Florida. Eaton NB&T has a total of five full service offices, with drive-up facilities at each office. Two offices (including the main office) are located in Eaton, while the other three offices are located in Lewisburg, New Paris, and West Alexandria. The bank also has a mortgage center and trust department located in the main office in Eaton. All five of the branch offices are located in middle-income areas within Preble County. Presently, Eaton NB&T owns and operates automatic teller machines (ATM) at each office location. The ATMs located at 400 South Barron Street and 4269 State Route 732 in Eaton were removed from service in March 2012. The bank's loan center in Richmond, Indiana was closed in 2007, the commercial real estate loan center in Dublin, Ohio was closed in 2009, and the Lakengren office in Eaton was closed in 2009.

Eaton NB&T's primary business activity consists of retail, business, and farm lending. The bank offers a variety of standard lending products and services to accommodate the credit needs of borrowers throughout its AA.

As of March 31, 2012, Eaton NB&T reported total assets of \$190 million and Tier One Capital of \$18 million. Eaton NB&T's loan portfolio totaled approximately \$126 million, with the loan portfolio representing 68 percent of average assets. During years 2010 and 2011, management sold approximately \$11 million in residential real estate loans and approximately \$1 million in agricultural loans to the secondary market. The mix of loans originated/purchased during the evaluation period is outlined in Table 1.

Loan Type	% by Number of Loans Originated/Purchased during evaluation period	% by Dollars of Loans Originated/Purchased during evaluation period
Residential Real Estate Loans	18%	21%
Business Loans: Commercial and Commercial Real Estate Loans	14%	40%
Individual Consumer Loans	58%	10%
Farm Loans	10%	29%
All Other Loans	Less than 1%	Less than 1%
Total	100%	100%

*Source: Internal bank reports as of December 31, 2011.*

There are no financial or legal impediments that affect Eaton NB&T's ability to meet the credit needs of its AA. Eaton NB&T's prior CRA rating as of October 4, 2004, was "Satisfactory Record of Meeting Community Credit Needs."

## **DESCRIPTION OF ASSESSMENT AREA**

Eaton NB&T has one AA that consists of all of Preble County, Ohio. Based on the 2000 census, the AA is comprised of 10 middle-income census tracts and is located in the Dayton, OH Metropolitan Statistical Area (MSA) # 19380. The AA area complies with all regulatory requirements and does not arbitrarily exclude low-income or moderate-income areas.

The total population of Preble County is 42,337. The AA is made up of 12,120 families, of which, 4.46 percent live below the poverty level. The AA has 17,186 total housing units of which 73.50 percent are owner-occupied, 19.61 percent are rental-occupied, and 6.90 percent are vacant. The median housing value for the county is \$98,015, with an average age of housing stock of approximately 50 years. Of the total households in the AA, 6.11 percent live below the poverty level. The Department of Housing and Urban Development (HUD) updated estimate of the median family income for the Dayton MSA #19380 in year 2011 was \$62,400. The median family income for Preble County was \$51,271, based on the 2000 U.S. census data.

The overall economic condition of the AA is relatively stable. Major industries in the AA include manufacturing, state/local government (including schools), and agriculture. Major employers in the AA include the Henny Penny Corporation, Parker-Hannifin Corporation, and Neaton Auto Products Manufacturing Inc., which are all located in Eaton. Competition in the AA is strong and comes primarily from local community banks and branches of large regional financial institutions throughout the county. According to the Ohio Department of Job and Family Services, Preble County had an unemployment rate of 7.9 percent as of April 2012, which is slightly higher than the State of Ohio's unemployment rate of 7.4 percent, but lower than the national average unemployment rate of 8.1 percent. Preble County was ranked 37<sup>th</sup> out of 88 counties (lowest to highest) in Ohio in unemployment rates in April 2012.

The bank's offices in Preble County provide the bank with a 32.54 percent deposit market share and the bank is ranked first per the FDIC (Federal Deposit Insurance Corporation) market share reports dated June 30, 2011. A total of eleven banking institutions have offices located in the Preble County.

During our examination, we interviewed one community contact for the purpose of assessing the credit opportunities and needs of the community, the bank's involvement in its local community, and the effectiveness of the bank's lending products and services. The community contact indicated that Eaton NB&T, along with other financial institutions in the area, are meeting the credit needs of the community.

## 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

Eaton NB&T's twenty-six quarter average and current LTD ratio's are reasonable and meet the standard for satisfactory performance. The average LTD ratio calculated over the last twenty-six quarters since the prior CRA examination (December 31, 2005 to March 31, 2012) equals 84.22 percent, which is reasonable. Eaton NB&T's highest LTD ratio was 92.06 percent at September 30, 2008, and the lowest was 73.88 percent at the current quarter, March 31, 2012. Eaton NB&T's current LTD ratio is lower than the average LTD ratio mainly due to declines in loan volume from stagnate loan demand, in addition to simultaneous increases in total deposits. However, the current LTD ratio is still reasonable despite being the lowest in the past 26 quarters; we noticed similar trends in the LTD of the bank's custom peer group. Our LTD ratio assessment included comparing Eaton NB&T's average LTD ratio to the average LTD of a custom peer group based on the same time period. The peer group consisted of three banks of similar size and purpose, each with total assets of less than \$250 million. The peer group's twenty-six quarter average LTD ratio equaled 79.40 percent and its current quarter (i.e., March 31, 2012) average LTD ratio equaled 70.08 percent. The results of the peer group analysis show that Eaton NB&T's LTD's ratios were higher than the custom peer group averages and commensurate with its peer group overall.

### Lending in Assessment Area

- The bank is lending a reasonable majority of their primary loan products inside their AA, which supports satisfactory performance.

Based upon our loan sample and HMDA data, 67 percent of the bank's primary lending products were originated inside their AA, which is a reasonable majority. As mentioned in the "Scope of Examination" section in this Public Disclosure, the bank's primary loan products are residential real estate, business, and farm loans. As such, we sampled twenty business loans and twenty farm loans originated from January 1, 2009 through December 31, 2011. Additionally, we used bank-reported HMDA data for residential real estate loans originated in years 2010 and 2011. Eaton NB&T's lending activity within the AA by number and dollar volume is outlined in Table 2.

<b>Table 2 - Lending in Preble County</b>										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	114	68%	53	32%	167	10,095	63%	6,055	37%	16,150
Commercial/Commercial Real Estate	8	40%	12	60%	20	2,473	75%	815	25%	3,288
Farm	16	80%	4	20%	20	2,144	90%	245	10%	2,389
Totals	138	67%	69	33%	207	14,712	67%	7,115	33%	21,827

Source: Commercial/business and farm categories derived from loan samples; home mortgage loan data reported under HMDA.

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

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

The distribution of residential real estate lending, based on HMDA reportable loans in 2010 and 2011, reflects reasonable penetration to all income categories, including low- and moderate-income borrowers, and supports satisfactory performance. In the moderate-income category, Eaton NB&T’s residential real estate lending in 2010 and 2011 to moderate-income families was 28 percent of total residential real estate loans and compares favorably to the demographic comparator of 23 percent of moderate income families in the AA. Eaton NB&T’s residential real estate lending in 2010 and 2011 to low-income families equaled 11 percent of total residential real estate loans, which is less than the percentage of low-income families in the AA of 18 percent. However, 4.46 percent of total families in the AA live below the poverty level and may not meet the credit standards to qualify for a home mortgage loan. In addition, Eaton NB&T also faces strong residential real estate loan competition in the AA primarily from local community banks and branches of large regional financial institutions throughout the county. Lending opportunities are further limited due to 19.61 percent of total housing units in the AA being occupied rental units and 6.90 percent being vacant units. Refer to Table 3 for specific details on the bank’s residential real estate lending.

<b>Table 3 - Borrower Distribution of Residential Real Estate Loans in Preble County</b>										
Borrower Income Level	Low		Moderate		Middle		Upper		NA	
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	% of AA Families	% of Number of Loans
Home Purchase	18%	9%	23%	43%	27%	24%	32%	24%	0%	100%
Refinancing		11%		27%		23%		27%		
Home Improvement		13%		13%		31%		37%		6%
Total	18%	11%	23%	28%	27%	24%	32%	28%	0%	9%

Source: Data reported under HMDA; 2000 U.S. Census data, updated as of 2011.

Based on the business loan sample, Eaton NB&T’s penetration of loans to small businesses is reasonable and supports satisfactory performance. The bank made 80 percent of their business loans to businesses with annual gross revenues of \$1 million or less, which is higher than the 71 percent of businesses in the AA with annual gross revenues less than \$1 million. Also, the bank made 68 percent of business loans by dollar volume to businesses with annual gross revenues of \$1 million or less, closely paralleling the 71 percent of businesses in the AA with annual gross revenues less than \$1 million. Refer to Table 3A for more details on the distribution of business loans.

<b>Table 3A - Borrower Distribution of Loans to Businesses in Preble County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71%	2%	27%	100%
% of Bank Loans in AA by #	80%	20%	-	100%
% of Bank Loans in AA by \$	68%	32%	-	100%

*Source: Loan sample; Dun and Bradstreet data.*

Based on the farm loan sample, Eaton NB&T’s penetration of loans to small farms is reasonable in comparison to the percentage level of small farms located in the AA and meets the standards for satisfactory performance. Ninety-nine percent of farms in the bank’s AA generate annual gross revenues totaling \$1 million or less based on demographic data. The results of our sample reflect that the bank made 80 percent of their loans to farms with annual gross revenues of \$1 million or less, which is lower than the demographic data in the AA. However, management indicated this distribution was a function of the sample and was not necessarily representative of their farm lending. In addition, management stated that the bank continues to lend to local, independent farmers. They also indicated that higher commodity prices may be a reason for the difference as well. All of these factors attribute to the lower level of lending to farmers with gross revenues under \$1 million as compared to the demographic data. Overall lending to small farmers is reasonable. Refer to Table 3B for details on the borrower distribution of loans to farms in the AA.

<b>Table 3B - Borrower Distribution of Loans to Farms in Preble County</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	-	100%
% of Bank Loans in AA by #	80%	20%	-	100%
% of Bank Loans in AA by \$	47%	53%	-	100%

*Source: Loan sample; Dun and Bradstreet data.*

### **Geographic Distribution of Loans**

We did not perform an analysis of geographic distribution of loans as part of this review. The bank's AA is comprised entirely of middle-income census tracts. As a result of the AA not consisting of any low- and moderate-income census tracts, a review of geographic distribution of credit would not be meaningful.

### **Responses to Complaints**

The bank has not received any complaints about its performance in helping to meet the credit needs of its AA.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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