



SMALL BANK

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

PUBLIC DISCLOSURE

October 4, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Eaton National Bank and Trust Co.
Charter Number 7557**

**110 West Main Street
Eaton, Ohio 45320**

**Comptroller of the Currency
Central Ohio Field Office
325 Cramer Creek Court, Suite 101
Dublin, Ohio 43017-3577**

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.

The Eaton National Bank has a satisfactory record of meeting community credit needs.

- A majority of home mortgage and consumer loans originated between October 1999 and December 2002, were within the bank's Assessment Area (AA).
- The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes.
- The bank's 19-quarter loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

Eaton National Bank & Trust (ENB) is a \$163 million financial institution with its main office located in Eaton, Ohio. Colonial Banc Corporation, a two-bank holding company which is also located in Eaton, owns ENB. ENB has one affiliate, Oculina Bank, a Savings and Loan located in Fort Pierce, Florida. ENB had \$3.7 million in participations with its affiliate as of October 2004. ENB's assets represented over 99% of the holding company's assets as of December 31, 2003.

ENB offers retail and commercial banking products through its main office, five full service branches located in Preble County in Western Ohio adjacent to Indiana, and a loan center in Richmond, Indiana. ENB has three branches located in Eaton and additional branches located in Lewisburg, New Paris, and West Alexandria, Ohio. ENB's loan center in Richmond, Indiana is in the eastern-most county of Indiana adjacent to the bank's Assessment Area (AA). All branches have drive-up facilities except for three locations (the North Barron Street Branch in Eaton, the Lakengren Office located at 4269 State Route 732 in Eaton, and the Richmond Loan Center office located at 29 North 8th Street, Richmond, Indiana). The bank owns and operates eight automated teller machines (ATMs). Six of the ATMs are located at the bank's branch offices and two are off-premise cash dispensing only machines located in Eaton and New Paris. All the branch facilities located in Ohio are in middle-income areas. The Richmond, Indiana loan center is located in a census tract designated as low-income.

ENB's primary business focus is commercial real estate followed by lending to individuals which consists of residential real estate and consumer loans. The bank offers a variety of loan products to accommodate borrowers within the bank's AA. ENB reported gross loans of approximately \$130 million on the June 30, 2004, Consolidated Report of Condition (Call Report). The bank's loan mix is outlined in the following table.

Loan Mix of Eaton National Bank as of June 30, 2004		
Loan Type	\$000's	% of Gross Loans
Commercial Real Estate	64,695	50%
Residential Real Estate	25,564	20%
Consumer	15,852	12%
Commercial	14,479	11%
Agricultural	2,944	2%
Other	<u>5,986</u>	<u>5%</u>
Total	129,520	100%

Source: June 30, 2004 Consolidated Report of Condition and June 30, 2004 Uniform Bank Performance Report

No financial or legal impediments exist that would affect the bank's ability to meet the credit needs of its community. ENB's prior CRA rating, as of October 25, 1999, was "Satisfactory Record of Meeting Community Credit Needs."

DESCRIPTION OF PREBLE COUNTY

ENB's AA consists of all of Preble County, Ohio. Per the 1990 census, the AA is comprised of 10 middle-income census tracts and was not part of a Metropolitan Statistical Area (MSA). As a result of the 2000 census, the bank's AA was included in MSA 19380. The inclusion of Preble County in the Dayton, Ohio, MSA did not result in changes regarding income designations for any geographies in the bank's AA.

Competition in the bank's AA includes three branches of large regional state and national banks, five branches of smaller state and national banks, one savings and loan, one credit union, and one finance company. The AA area complies with all regulatory requirements and does not arbitrarily exclude low- or moderate-income areas.

Based on 1990 census data, the AA has a population of 40,113, of which 9.0% live at or below the poverty level and 6.0% receive some form of public assistance. Of the assessment area's 15,174 housing units, 11,068, or 73%, are owner occupied, 3,279, or 22%, are renter-occupied and 827, or 5%, are vacant. The median housing value in the AA is \$53,172. According to 1990 census data, the median family income for the bank's AA is \$48,500. The Department of Housing and Urban Development's (HUD) September 3, 2004 estimate of the updated median family income for bank's AA (MSA 19380) was \$56,800.

The economic status of families and census tract geographies are categorized as low-, moderate-, middle-, and upper-income groups using the following definitions. Low-income is defined as a family or geography with income that is less than 50% of the MSA family median income or HUD estimate for that year. Moderate-income means a family or geography with income that is greater than 50% and less than 80% of the MSA family median income or HUD estimate for that year. Middle-income is defined as a family or geography with income that is at least 80% and less than 120% of the MSA family median income or HUD estimate for that year. Upper-income means a family or geography with income that is 120% or more than the MSA median family income or HUD's estimate for that year.

The local economy is stable. Per statistics compiled by the Ohio Department of Jobs and Family Service as of August 2004, Preble County's unemployment rate of 5.1% ranks 24th of Ohio's 88 counties and compares favorably with both the state average of 5.8%, and the national average of 5.4%. The major economic activity in the AA is manufacturing followed by retail trade and state and local government. Major private employers in the AA are Akey Inc., Henny Penny Corporation, Bullen Ultrasonics and Neaton Auto Parts.

We conducted two community contacts in conjunction with this examination. One community contact was with a local realtor. The other contact was an individual representing a local community action agency. Per discussion with the community contacts, the local economy was described as slow to stable, and the job market was also described as slow. Opportunities for participation in special loan programs in the bank's AA were described as limited while local institutions were said to be proactive in their approach to addressing local credit needs. In general it was felt that the credit needs of the AA were being served; however, more could be done for first-time homebuyer programs and borrowers with little or no credit history. The primary credit need in the AA was said to be loan programs tailored to first time homebuyers. While several local institutions were said to be leaders in serving the credit needs of the AA, ENB was not one of the institutions named.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's performance for residential real estate, consumer and commercial/commercial real estate loans was considered principally in this CRA examination. These are the bank's primary loan products.

To evaluate the level of residential, consumer, and commercial/commercial real estate loans, we reviewed a random sample of 20 loans of each type from the bank's loan trials. The loans sampled originated between October 31, 1999 and December 31, 2002. Initially, the files were used to perform an analysis of loans originated within the bank's AA. We then disregarded any loans originated outside the AA to evaluate lending to individuals at each income level, and to small businesses. Additional files were then selected as necessary to ensure at least 20 loans of each loan type sampled were within the bank's AA. This was to assess the performance of the borrower distribution by income and size of business.

Loan-to-Deposit Ratio

Eaton National Bank's loan-to-deposit (LTD) ratio and its quarterly LTD ratio are reasonable and support the standards for satisfactory performance. The bank's June 30, 2004 LTD ratio of 87.70% and average LTD ratio of 89.85% for the 19 quarters since the last CRA examination (October 25, 1999) are reasonable. For analysis purposes, ENB's current and quarterly average LTD ratios were compared to the average LTD ratios as of June 30, 2004, for a peer group of similarly situated banks within Ohio, having total assets ranging from \$50 million to \$200 million. Both of the bank's June 30, 2004, and 19-quarter average LTD ratios exceed the similarly situated banks' average LTD ratio of 79.92%.

Lending in Assessment Area

A majority of the ENB's loans are within the AA and the bank's record reflects satisfactory performance. We reviewed samples of residential mortgage loans, consumer loans, and commercial/commercial real estate loans originated between October 1999 and December 31, 2002. Our samples consisted of 20 loans of each type, 60 loans in total. The following table demonstrates the sample results by number and dollar percentage, and supports the conclusion that a majority of the bank's loans are in the bank's AA. Of the loans sampled, 90% of the residential and 85% of the consumer loans were within the bank's AA. Seventy percent of the number of commercial/commercial real estate loans (CRE) sampled were within the bank's AA. While the total dollar percentage of commercial/CRE loans in the AA was lower than those outside the AA, the dollar percentage is negatively impacted by the commercial/CRE loan total. The make-up of the AA provides more opportunity for commercial loans outside the AA. The make-up of the AA is primarily residential and agricultural, with more opportunities for large commercial/CRE loans outside the bank's AA.

Lending in Preble County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	18	90%	2	10%	20	1,497,000	82%	319,300	12%	1,816,300
Consumer	17	85%	3	15%	20	240,209	85%	42,811	15%	283,020
Commercial/CRE	14	70%	6	30%	20	1,016,475	24%	3,189,889	76%	4,206,364
Totals	49	82%	11	18%	60	2,753,684	44%	3,552,000	56%	6,305,684

Source: Sample of 20 loans of each type originated between October 1999-December 2002

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

Eaton National Bank has a satisfactory record of lending to borrowers of different incomes and businesses of different sizes. The bank's distribution of residential loans is reasonable given the demographics of the AA. As evidenced by the following table, of the 20 residential loans sampled, two loans or 8% were made to low-income borrowers and another five loans or 15% were made to moderate-income borrowers. The percentages of residential loans made to low-income borrowers and moderate-income borrowers are lower than the percentage of low-and moderate-income families in the AA. The cost of housing in the AA and the percentage of families living below the poverty level are contributing factors in the bank's residential lending performance. The median value of housing in the AA was \$53,172, while the updated median family income of was \$48,700. In addition, 9% of households in the AA live below the poverty level.

Borrower Distribution of Residential Real Estate Loans in Preble County				
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
Residential purchase	16%	8%	19%	15%	25%	44%	40%	33%

Source: 1990 Census data and sample of 20 residential real estate loans originated between October 1999-December 2002

The bank's distribution of consumer loans to borrowers of different incomes is reasonable and supports satisfactory performance. As illustrated in the table below, the percentage of consumer loans to low-income borrowers is slightly below the percentage of low-income households in the AA (15% vs. 16%, respectively). Nine percent of households in the AA are below the poverty level. The percentage of consumer loans to moderate-income borrowers is slightly higher than the percentage of moderate-income households in the AA (20% vs. 17%).

Borrower Distribution of Consumer Loans in Preble County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	16%	15%	17%	20%	21%	30%	46%	35%

Source: 1990 Census data and sample of 20 consumer loans originated between October 1999-December 2002

The commercial loan sample illustrates reasonable distribution among businesses of different sizes in the AA. A majority of the loans sampled, or 75% based on number, were made to businesses with annual gross revenues of \$1,000,000 or less, which is similar to the demographics of the AA. The dollar percentage of loans made to small businesses within the AA is lower than dollars lent outside the AA. The difference is explained by size of the majority of the businesses in the AA. A vast majority of the businesses in the AA, or 84%, have revenues less than \$1 million and 80% have revenues less than \$500,000.

Per 2002 business demographic data, 84% of the businesses in the AA reported annual gross revenue of \$1,000,000 or less, four percent of businesses reported revenues greater than \$1,000,000, and 12% did not report annual revenue.

Borrower Distribution of Loans to Businesses in Preble County		
Business Gross Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	84%	4%
% of Bank Loans in AA by #	75%	25%
% of Bank Loans in AA by \$	46%	54%

Source: 2002 Business geodemographic data and sample of 20 commercial loans originated between October 1999-December 2002

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. Because ENB's AA does not

include any low- or moderate-income geographies, review of a 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

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