



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**February 21, 2006**

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

**The Citizens National Bank of McConnellsville  
Charter Number 5259**

**100 East Main Street  
McConnellsville, Ohio 43756**

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

**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 Outstanding.**

- This bank's lending activity reflects excellent dispersion to all areas within the AA, especially moderate-income areas.
- A substantial majority of this bank's lending activity occurs within its AA.
- This bank had taken an active role to improve the economic conditions of its AA and has provided for increased homeownership opportunities for low- and moderate-income borrowers within its AA.
- This bank's lending activity reflects reasonable distribution to borrowers of different income levels, especially to low- and moderate-income borrowers.

## **DESCRIPTION OF INSTITUTION**

The Citizens National Bank (CNB) is owned by a one-bank holding company, CNB Holdings, Inc. Both the bank and its holding company are located in McConnelsville, Ohio, which is about 80 miles southeast of Columbus, Ohio. CNB has no other affiliates. Besides its main office, CNB has a full-service branch located in Duncan Falls, Ohio, which is about 20 miles north of McConnelsville near the city of Zanesville, Ohio. CNB offers retail and commercial banking products and services with a strong emphasis on residential real estate loans. No legal or financial impediments exist that could restrict this bank's ability to meet the credit needs of its assessment area. CNB's last CRA examination commenced on August 23, 1999, and a "Satisfactory" rating was assigned at that examination.

As of September 30, 2005, the bank had \$61.9 million in total assets, \$49.2 million in total deposits, and \$42.0 million in net loans. According to the FDIC's June 30, 2005 Deposit Market Share Report for Morgan County, the bank had a 29.52% market share and had the 2<sup>nd</sup> largest (out of a total of four financial institutions) market share in the county with \$42.1 million in deposits. CNB's market share for Muskingum County was only 0.51% and had the lowest market share (out of a total of eight financial institutions) in the county with \$6.4 million in deposits.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's assessment area (AA) consists of three moderate-income census tracts (CTs) and seven middle-income CTs covering all of Morgan County and the southern two-thirds of Muskingum County. Of the four CTs in Morgan County, two are moderate-income CTs and two are middle-income CTs. This AA is not within a metropolitan statistical area (MSA). The 2004 Updated Median Family Income for non-MSA areas of the state of Ohio was \$48,500. As of the 2000

Census, the total population of this AA was 42,174 with 15,764 households and 18,463 housing units. Please refer to the various tables in the **CONCLUSIONS ABOUT PERFORMANCE CRITERIA** section of this document for relevant demographic data used to evaluate this bank's lending performance. This bank's AA complies with all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

The economy of the AA, especially Morgan County, continues to be depressed. The February 2006 unemployment rates were 10.7% for Morgan County and 8.9% for Muskingum County. These compare unfavorably with the State of Ohio's unadjusted rate of 6.1% and the national rate of 5.1%. As illustrated by these high unemployment rates, the most pressing need for this AA is local employment. A high percentage of the population commutes 30 to 50 miles one way to work. There are idle facilities and acreage to build for new jobs, but semi-truck access is a problem. While there are two major interstates within 30 miles of this area, access to them is burdensome given that they are two lane roads, and one is winding.

Competition for loans and deposits is moderate and comes from one local community bank also headquartered in McConnellsville, two community banks and two larger community/regional banks with branches in Morgan and/or Muskingum Counties. The largest industries in Morgan County include state and local government, manufacturing, and health care and social services. The major employers include Miba Bearings US LLC, Dana Corporation, Morgan County Local Government, and Hann Manufacturing. The southern third of Muskingum County is mostly residential and rural and serves mainly as a bedroom community for larger cities.

Based on our review of recent CRA performance evaluations performed for other financial institutions within this AA and one community contact we performed during this examination, community credit needs are being met by the financial institutions serving this AA. The primary credit need is for affordable housing for low- and moderate-income families. The contact did indicate that the local financial institutions could do more to improve the area like develop a formal affordable mortgage product. In addition, local financial institutions could increase available government funding to local community groups by providing more matching funds.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

- Based on criteria for the CRA Lending Test, including Community Development Activities, this bank's lending performance is outstanding.

To evaluate this bank's CRA lending performance, we focused on this bank's loan-to-deposit ratio since its last CRA examination and compared it to similarly situated banks within and in close proximity to its assessment area (AA); record of lending in its AA; record of lending to borrowers of different income levels within its AA, especially low- and moderate-income borrowers; and geographic distribution of lending to all areas in its AA, especially moderate-income areas. In addition, we reviewed community development lending and services that benefited low- and moderate-income areas/borrowers. We reviewed lending activity for all of 2003, 2004, and 2005. As illustrated by the following table, the bank's primary lending products were residential real estate, consumer, and commercial/commercial real estate lending.

<b>Loan Type</b>	<b>% by Dollars of Loans Originated during evaluation period</b>	<b>% by Number of Loans Originated during evaluation period</b>
Residential Real Estate	39%	18%
Consumer Loans	17%	54%
Commercial/Commercial RE	24%	7%
Total Primary Loan Types	80%	79%
All Other	20%	21%
Total	100%	100%

To assess the bank's record of lending in its assessment area, we randomly selected 60 loans, 20 from each of the bank's primary loan types, regardless of the borrower's address/location, originated during the review period of January 1, 2003 through December 31, 2005. We sampled 60 residential real estate loans, 20 consumer loans, and 20 commercial/commercial real estate loans within the AA, made during the review period, to evaluate the bank's borrower and geographic distribution.

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

- This bank's loan-to-deposit (LTD) ratio is reasonable when compared with the performance of other similarly situated banks within, and in close proximity to, its AA.

Since the prior CRA examination, this bank's quarterly LTD ratio averaged 78% over 25 quarters. This compares with the quarterly LTD ratio average of 73% for all similarly situated banks within, and in close proximity to, its AA over the same time period. Similarly situated banks included all 12 commercial banks with total assets less than \$100 million and taking deposits within the counties of the bank's AA and all contiguous counties (four).

### **Lending in Assessment Area**

- A substantial majority of this bank's lending activity occurs within its AA.

Based on a random sample of 60 loans originated from 2003 through year-end 2005, this bank made 90%, based on the number of loans, and 82%, based on the dollar amount of loans, within its assessment area.

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

- This bank's lending to borrowers of different income levels, especially low-and moderate-income, and businesses of different sizes, is good to excellent when compared to the demographics of its AA. Please refer to the data in the following table for support of this conclusion.

<b>Borrower Distribution of Residential Real Estate Loans made in AA</b>								
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
	24.06%	6.67%	20.30%	25.00%	25.02%	35.00%	30.63%	33.33%

Source: Random sample of 60 residential loans originated January 1, 2003 through December 31, 2005.

<b>Borrower Distribution of Consumer Loans made in AA</b>								
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
	27.26%	40.00%	18.58%	35.00%	20.54%	20.00%	33.61%	5.00%

Source: Random sample of 20 consumer loans originated January 1, 2003 through December 31, 2005.

<b>Borrower Distribution of Commercial/Commercial Real Estate Loans made in AA</b>				
Business Revenues (or Sales	Less than or equal to \$1 million	More than \$1 million	Unavailable/Unknown	Total
% of AA Businesses	67.67%	5.01%	27.32%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0%	100%
% of Bank Loans in AA by \$	87.85%	12.15%	0%	100%

Source: Random sample of 20 commercial/commercial real estate loans originated January 1, 2003 through December 31, 2005.

The distribution of residential real estate loans to low-income borrowers is reasonable as 14.33% of the households in the AA are below the poverty line. The penetration of residential real estate loans to moderate-income borrowers is excellent. The distribution of consumer loans to low- and moderate-income borrowers is excellent. Commercial/commercial real estate lending to businesses with revenues of less than or equal to \$1 million reflects good penetration.

### **Geographic Distribution of Loans**

- This bank's geographic distribution of loans reflects excellent dispersion to moderate-income areas. Please refer to the following tables for support of this conclusion.

<b>Geographic Distribution of Residential Real Estate Loans made in AA</b>				
Census Tract Income Level	Moderate		Middle	
	% of AA Owner Occupied Housing Units	% of Number of Bank Loans	% of AA Owner Occupied Housing Units	% of Number of Bank Loans
	25.22%	43.33%	74.78%	56.67%

Source: Random sample of 60 residential real estate loans originated January 1, 2003 through December 31, 2005.

<b>Geographic Distribution of Consumer Loans made in AA</b>				
Census Tract Income Level	Moderate		Middle	
	% of AA Households	% of Number of Bank Loans	% of AA Households	% of Number of Bank Loans
	28.55%	45.00%	71.45%	55.00%

Source: Random sample of 20 consumer loans originated January 1, 2003 through December 31, 2005.

<b>Geographic Distribution of Commercial/Commercial Real Estate Loans made in AA</b>				
Census Tract Income Level	Moderate		Middle	
	% of AA Businesses	% of Number of Bank Loans	% of AA Businesses	% of Number of Bank Loans
	29.92%	35.00%	70.08%	65.00%

Source: Random sample of 20 commercial/commercial real estate loans originated January 1, 2003 through December 31, 2005.

Our analysis reflected lending in most tracts, including in all moderate-income tracts, and there were no conspicuous gaps or areas of low penetration in the bank's lending patterns. The dispersion of residential real estate and consumer lending in moderate-income tracts is excellent, and the dispersion of commercial/commercial real estate lending is excellent.

### **Qualified Community Development Activities**

This bank, through lending money and providing technical expertise, has taken an active role to improve the economic conditions of its AA, specifically in Morgan County. In addition, it has provided homeownership opportunities for low- and moderate-income borrowers through its participation in the Federal Home Loan Bank (FHLB) Welcome Program. Starting in 2003, this bank has participated in the FHLB's Welcome Home Program, which provides down payment assistance to low- and moderate-income borrowers with the acquisition of owner-occupied housing. Since 2003, this bank has assisted four (4) low- and six (6) moderate-income customers in obtaining a total of \$60 thousand from this program. As a comparison, a similarly situated bank in the AA has assisted five customers in obtaining \$25 thousand from this program over the

same time period.

From the beginning of 1999 to September 2005, the president of the bank served as President of the Morgan County Improvement Corporation (MCIC). The primary purpose of this organization is to improve the economic conditions through the retention of existing jobs, attract new businesses to the community and work with local government and the state to improve the county's aesthetic environment and infrastructure in areas such as water, sewer, road, communication, and utilities. MCIC acts as a liaison to link businesses with appropriate individuals or government agencies available to help existing businesses grow and to attract new businesses to the area. MCIC works closely with the state of Ohio Department of Development in a tandem effort toward bringing prospects to the county, and to match their needs with existing or planned facilities.

During the review period, this bank made two loans to the MCIC for a total of \$305 thousand. The loans, which were made in conjunction with monies from the state of Ohio, funded the purchase of one manufacturing facility and the renovations of another that assisted the AA in retaining at least 330 jobs, which is the primary need of the AA. These loans helped to stabilize all of Morgan County, which includes two moderate-income geographies. The majority of the jobs retained are middle-income.

### **Responses to Complaints**

Neither bank management nor our office received any complaints regarding this bank's CRA performance. Therefore, this performance criterion is not applicable.

### **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.