



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

March 6, 2008

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

The First National Bank of McConnelsville  
Charter Number 46

86 North Kennebec Avenue  
McConnelsville, Ohio 43756-0208

Office of the 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 bank's loan-to-deposit ratio is reasonable.
- The bank's lending to borrowers of different incomes and businesses of different sizes is reasonable.
- The geographic distribution of the bank's loans reflects more than reasonable penetration to moderate-income areas.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of McConnelsville (FNB) is a wholly owned subsidiary of FNB Shares, Inc., a one-bank holding company. The main office is located about 90 miles southeast of Columbus, Ohio, in the Village of McConnelsville, Ohio. The bank operates its main office and two full-service branches (Stockport, Ohio and Chesterhill, Ohio) in Morgan County. FNB also operates full-service branches in Junction City, Ohio (Perry County), and Athens, Ohio (Athens County). FNB purchased its branch in Chesterhill from another financial institution during the 4<sup>th</sup> quarter of 2006, and opened the branch in Athens during March 2004. In November 2006, the bank closed its branch office in Carroll, Ohio (Fairfield County), which is part of the Columbus, Ohio Metropolitan Statistical Area (MSA). Because FNB no longer has a branch office in an MSA, it is no longer required to collect and report Home Mortgage Disclosure Act (HMDA) information. This change in the bank's HMDA reporting status took effect on January 1, 2007.

The bank's business focus is retail and commercial banking and it offers standard products and services through all five locations. No legal or financial impediments exist that could restrict FNB's ability to meet the credit needs of its assessment area.

As of December 31, 2007, FNB reported total assets of \$88 million, \$71 million in total deposits, and \$62 million in net loans. As of December 31, 2007, loans secured by 1-4 family residential properties accounted for 63.7% of gross loans, commercial/commercial real estate loans represented 21.2% of gross loans, and consumer loans accounted for 9.6% of gross loans. FNB received a "Satisfactory" rating at its last CRA examination dated May 5, 2003.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNB had previously designated two assessment areas (AA): one located in a non-MSA and one located in an MSA. The MSA AA was appropriately eliminated in 2006 upon the sale of a branch. The current AA is located in a non-MSA, and consists of twelve census tracts (CTs): all four CTs that comprise Morgan County; four CTs in the southern two-thirds of Perry County;

and four CTs in the northern half of Athens County. Morgan County is the bank's primary market area.

Prior to the start of this CRA examination, FNB had delineated one CT in Perry County and one CT in Athens County in its AA. However, neither of these tracts in these two counties was contiguous to Morgan County or to each other. The AA did not conform to the requirements of 12 C.F.R. §25.41 as it was not contiguous. Therefore, for purposes of this evaluation, we adjusted the bank's AA to include the southern two-thirds of Perry County and the northern half of Athens County. Because of this adjustment, the bank's non-MSA AA now includes only contiguous counties. The adjustments to the AA were discussed with bank management. The need for this adjustment had no bearing on the bank's final CRA rating.

The non-MSA AA consists of five moderate-income CTs and seven middle-income CTs. The Updated Median Family Incomes for the non-MSA areas in the State of Ohio were: \$50,700 for 2005; \$51,100 for 2006; and \$50,000 for 2007. As of the 2000 Census, the population of the non-MSA AA was 52,144 with 20,128 households and 23,685 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 FNB's lending performance.

Competition for loans and deposits is strong with 11 other community banks and branches of six large national and/or regional banks accepting deposits and making loans in Morgan, Perry, and Athens Counties.

Our discussion with a local government official in Morgan County indicated that the local banks are very active in the community and willing to lend support (both money and time) to community service projects. While real estate loan demand has fallen due to a slow down in real estate sales, local banks are meeting the credit and banking needs of the community, including the low- and moderate-income population. Based on comments from community contacts performed during CRA examinations for other banks in this non-MSA AA, the primary challenges in this non-MSA AA are its poor infrastructure and the lack of well paying jobs.

The economic conditions of this non-MSA AA are poor. Southeast Ohio and Appalachia are challenged with high unemployment, limited economic opportunities, and poor infrastructure. Available jobs in the area are lower paying (approximately \$12,000 per year) compared to what was available when coal was a major industry (\$80,000 to \$100,000 a year). In the non-MSA AA, 15.1% of the families and 18.8% of the households live below the poverty level, with 5.5% of households receiving some form of public assistance. In addition, 18% of the population of Morgan County commutes 60 minutes or more one-way to work. Morgan County's January 2008 unemployment rate of 11.7% was the highest among all 88 counties in Ohio, and compares very unfavorably to the State of Ohio's average unemployment rate of 6.3% and the national unemployment rate of 5.4%. Major industries in this county are state and local government, retail trade, manufacturing, and healthcare/social services. Population growth in Morgan County has been stagnant as the population has grown by only 4% since the 1980s (14,241 to 14,821).

Perry County’s unemployment rate for January 2008 was 8.7%, and Athens County’s unemployment rate was 6.4%. Athens County benefits significantly from the fact that a large public university (Ohio University) is located in Athens, Ohio. Major industries in these two counties include state and local government, healthcare and social services, retail trade, accommodation and food services, and manufacturing.

FNB’s second AA consisted of one middle-income CT in Fairfield County (MSA AA), which is part of the Columbus, Ohio MSA. When the bank sold its branch in Carroll, Ohio, in November 2006, FNB appropriately eliminated this MSA AA. From 2005 through year-end 2006, the bank had limited activity in this middle-income CT (3% of the total number of loans originated and 12% of the total dollar amount of loans originated). Because of the limited activity in this MSA AA and to maintain a consistent AA for the entire lending evaluation period (2005 through 2007), we did not consider activity in this MSA AA during for our review. This action did not impact the bank’s final CRA rating.

## SCOPE OF EXAMINATION

To evaluate FNB’s CRA performance, we focused on its: quarterly loan-to-deposit (LTD) ratio since the last CRA examination and compared it to similarly situated banks; record of lending in its AA; record of lending to borrowers of different income levels and businesses of different sizes within its AA; and geographic distribution of lending in its AA. We reviewed lending activity for 2005, 2006, and 2007. As illustrated by the following table, the bank’s primary lending products were commercial/commercial real estate, residential real estate, and consumer loans during this evaluation period.

<b>Loan Types</b>	<b>% by Dollar Amount of Loans Originated during the evaluation period</b>	<b>% by Number of Loans Originated during the evaluation period</b>
Commercial/Commercial Real Estate	43%	10%
Residential Real Estate	36%	13%
Consumer Loans	20%	76%
Total Primary Loan Types	99%	99%
Other	1%	1%

*Evaluation period: 2005-2007*

To assess FNB’s record of lending in its AA, we used: its 2005 and 2006 reported home mortgage disclosure act (HMDA) data; a random selection of 20 commercial/commercial real estate loans and 20 consumer loans, regardless of location, originated from 2005 through 2007; and a random selection of 20 residential real estate loans, regardless of location, originated in 2007. To complete the borrower and geographic distributions, we: used the reported 2005 and 2006 HMDA data for loans made in the AA; sampled 20 commercial/commercial real estate loans and 20 consumer loans made in the AA originated from 2005 through 2007; and sampled 20 residential real estate made in the AA originated in 2007.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

- FNB's LTD ratio is reasonable when compared with the performance of other similarly situated banks in its AA.

Since the last CRA examination, FNB's quarterly LTD ratio averaged 90.87% over the last 20 quarters. This compares with the quarterly LTD ratio of 85.86% for similarly situated banks in its AA. Similarly situated banks include seven other commercial banks taking deposits in FNB's AA with total deposits between \$49.7 million and \$151.6 million as of June 30, 2007.

### Lending in Assessment Area

- A majority of FNB's lending activity occurs within its AA.

Based on the information used to assess this criterion as detailed above, FNB made 76% of loans, based on number, and 67% of loans, based on dollar amount, within its AA.

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

- FNB's lending to borrowers of different incomes and business of different sizes reflects reasonable penetration to low- and moderate-income borrowers and businesses with revenues of \$1 million or less when compared to the demographics of the AA.

The distribution for commercial/commercial real estate lending meets the standard for satisfactory performance as reflected in the below table. While lending to businesses with revenues of \$1 million or less significantly exceeds the demographics of the AA, 39.8% of businesses did not report revenue information for this demographic. In addition, the bank's lending to businesses with revenues of more than \$1 million is consistent with the percentage of businesses with reported revenues of more than \$1 million.

<b>Borrower Distribution of Commercial/Commercial Real Estate Loans in AA</b>			
Reported Business Revenues	Less than or equal to \$1 million	Greater than \$1 million	Did not report
% of AA Businesses	56.5%	3.7%	39.8%
% of Bank Loans in AA by #	95.0%	5.0%	0.0%
% of Bank Loans in AA by \$	98.0%	2.0%	0.0%

Source: *Dunn and Bradstreet Data; Loan sample*

The distribution for residential real estate loans meets the standard for satisfactory performance when compared with the percentage of low-and moderate-income families in the AA, as noted in the following table. While lending to low-income borrowers is less than the percentage of low-income families, the bank's lending to moderate-income borrowers exceeds the percentage of

moderate-income families in the AA. A factor to consider in the lower penetration to low-income borrowers is that 15.1% of the families in the AA live below the poverty line and may not meet FNB's credit standards.

<b>Borrower Distribution of Residential Real Estate Loans in 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
Residential Real Estate	28.0%	16.5%	22.2%	28.2%	23.8%	28.5%	26.0%	26.8%

Source: HMDA data and loan sample; 2000 U.S. Census data.

The distribution for consumer loans exceeds the standard for satisfactory performance when compared with the percentage of low- and moderate-income households, as reflected in the following table. While lending to low-income borrowers is less than the percentage of low-income households, the bank's lending to moderate-income households significantly exceeds the percentage of moderate-income households in the AA. A factor to consider in the lower penetration to low-income borrowers is that 18.8% of the households live below the poverty line and may not meet FNB's credit standards.

<b>Borrower Distribution of Consumer Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	31.6%	25.0%	19.9%	55.0%	20.0%	20.0%	28.5%	0.0%

Source: Loan sample; 2000 U.S. Census data.

## Geographic Distribution of Loans

- FNB's geographic distribution of loans reflects more than reasonable dispersion to all areas within its AA, including moderate-income tracts. Our analysis reflected lending in both income level tracts with no conspicuous gaps or areas of low penetration in FNB's lending pattern. Please refer to the following tables for support of this conclusion.

<b>Geographic Distribution of Commercial/Commercial Real Estate in AA</b>				
Census Tract Income Level	Moderate		Middle	
	% of AA businesses	% of Number of Loans	% of AA businesses	% of Number of Loans
Commercial/Commercial Real Estate	39.1%	60.0%	60.9%	40.0%

*Source: Loan sample; Dunn and Bradstreet data*

<b>Geographic Distribution of Residential Real Estate in AA</b>				
Census Tract Income Level	Moderate		Middle	
	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans
Residential Real Estate	40.1%	48.6%	59.9%	51.4%

*Source: HMDA data and loan sample; 2000 U.S. Census data.*

<b>Geographic Distribution of Consumer Loans in AA</b>				
Census Tract Income Level	Moderate		Middle	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	42.7%	55.0%	57.3%	45.0%

*Source: Loan sample; 2000 U.S. Census data.*

## Responses to Complaints

Neither bank management nor our Office received any complaints relating specifically to FNB's CRA performance.

## 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.