



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 11, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Merchants National Bank  
Charter Number: 2449

100 North High Street  
Hillsboro, Ohio 45133

Office of the Comptroller of the Currency

CENTRAL OHIO FIELD OFFICE  
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.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

- The bank's loan-to-deposit (LTD) ratio is more than reasonable and compares favorably with similarly situated banks in the assessment areas (AA).
- A majority of this bank's lending activity occurs within its AAs.
- Lending to borrowers of different income levels and businesses of different sizes reflects reasonable penetration within the bank's AAs.
- The bank's performance in lending to geographies of different income levels exhibits reasonable dispersion throughout its AAs.
- Responsiveness to the community development needs of the AAs is adequate.

## **Scope of Examination**

This performance evaluation assesses the bank's performance under the Lending and Community Development (CD) Tests. The evaluation of the Lending Test covers performance from January 1, 2005 to December 31, 2007, excluding CD loans. The evaluation period for CD loans, investments, and services is from November 16, 2004 to April 11, 2008. We evaluated the bank's performance of small loans to businesses (commercial and commercial real estate loans) and home mortgage loans (home purchase, refinance, and home improvement loans) as reported under the Home Mortgage Disclosure Act (HMDA), as these are the bank's primary lending products.

The bank has designated three AAs, as detailed under the "Descriptions of Assessment Areas." For analysis purposes, we conducted full scope reviews of all three of the bank's AAs. The bank's Non-MSA AA and Columbus MSA AA represent the bank's primary lending and deposit markets, containing the bank's headquarters and the majority of its branches. The bank opened a branch in the Cincinnati MSA AA in 2006. Although the lending volume was not significant in the Cincinnati AA, we conducted a full scope review of it as well. We used the Intermediate Small Bank Examination procedures.

We used the HMDA data (2005 – 2007) reported by the bank to analyze the bank's home mortgage lending. We conducted a review of the 2005 – 2007 HMDA data during prior examinations and found the data to be accurate and reliable.

To evaluate the bank's performance of small loans to businesses, we sampled twenty business loans (commercial and/or commercial real estate loans) originated during the evaluation period for analyzing the lending within the AA. Then we sampled an additional twenty business loans from each AA for analyzing the lending to borrowers of different income levels and businesses of different sizes and the geographic distribution of loans.

## Description of Institution

The Merchants National Bank (MNB) is an independent, intrastate community bank headquartered in the city of Hillsboro, Ohio, which is located in Highland County. MNB is a wholly-owned subsidiary of Merchants Bancorp, Inc., a one-bank holding company that is also located in Hillsboro. The bank has eight banking offices located throughout Highland, Fayette, Madison, and Brown counties. The bank provides automatic teller machines (ATMs) and drive-thru facilities at six of their offices. All of the bank's offices are located in middle-income geographies.

At December 31, 2007, MNB had total assets of \$397 million and held \$34 million in Tier I Capital. MNB's loan portfolio totals approximately \$319 million, with net loans representing about 80% of total assets as of December 31, 2007. Approximately 71% of the loans originated during the evaluation period were residential real estate (46%) and commercial/commercial real estate loans (25%), with the remainder in farm loans (18%) and consumer installment loans (11%). The bank's primary business focus is home mortgage lending (residential real estate) and small loans to businesses (commercial real estate and commercial business loans). The bank offers a variety of standard lending products to accommodate the credit needs of borrowers within their AAs. MNB sells a majority of the fixed rate mortgage loans it originates. During the evaluation period, the bank sold approximately 260 loans totaling about \$27 million.

Competition for loans and deposits within the bank's AA is strong and comes from many local community financial institutions and branches of larger institutions.

Presently, there are no financial or legal impediments that affect the bank's ability to help meet the credit needs of its AA. MNB's CRA rating as of November 15, 2004, was "Satisfactory Record of Meeting Community Credit Needs." At the last CRA examination, the bank was evaluated under the Large Bank CRA procedures. During this examination, the bank is being evaluated using the Intermediate Small Bank procedures due to a change in the CRA regulation (12 CFR 25) since the prior CRA examination. The bank's lending performance for years 2005, 2006, and 2007 was reviewed in detail during this examination.

## Description of Assessment Areas

MNB has three AAs. Two of them are located in metropolitan statistical areas (MSAs) and one is in a non-MSA area. Bank management selected these AAs based on the bank's targeted lending territory and office locations. The AAs are contiguous and meet the requirements of the Community Reinvestment Act (CRA) and do not arbitrarily exclude low- or moderate-income geographies.

Competition in the AAs is high due to many national banks, savings and loan associations, mortgage banks, and branches of large financial institutions being located in the AA. MNB had approximately 14% of the market share of deposits in Highland and Fayette Counties, 8% in Madison County, and 2% in Brown County as of the June 30, 2007 Market Share Report from the Federal Deposit Insurance Corporation

(FDIC).

Community contacts indicated that the area's economy is presently stable, but may decline over the next year with the announcement of a large employer closing. The credit needs of the AA continue to be affordable housing loans. According to the contacts, the local financial institutions are meeting those needs. Per discussion with the community contact, the needs and opportunities for CD loans and investments are primarily related to organizations that provide housing, medical treatment, education, employment assistance, and other services for low- and moderate-income individuals and families.

### ***Non-MSA AA***

The Non-MSA AA is comprised of all of Highland and Fayette counties and one census tract in the western section of Ross County. The entire area is contiguous. The main office in Hillsboro is located in southwestern Ohio, approximately sixty miles east of Cincinnati, Ohio. Hillsboro is the largest city in Highland County and the county seat. The bank has three offices in the Hillsboro area. Greenfield is the second largest city in the Highland County. The bank has two offices in Greenfield. The bank has one office located in Washington Court House in Fayette County, which is the largest city in that county. All of the offices are located in middle-income census tracts.

The Non-MSA AA is comprised of two moderate-income (12%) and fifteen middle-income (88%) geographies. The population of the Non-MSA AA is 73,575, with 11% of the population living in moderate-income geographies and the remainder in middle-income geographies (89%). Sixty-five percent of the housing units are owner occupied, with 10% of them in moderate-income areas and 90% in middle-income areas. Twelve percent of the households are living below the poverty level, 29% of the households receive social security benefits, and 18% are retired. The median housing value is \$83,385; the average median age of housing is 42 years. The weighted average monthly gross rent is \$458.

According to the 2000 U.S. Census Data, the Ohio statewide non-MSA median family income is \$43,801. The Department of Housing and Urban Development's (HUD) estimate of the Ohio statewide non-MSA median family income was \$50,000 for 2007. Approximately 19% of the families in the AA are low-income (less than 50% of the AA median family income) and 20% are moderate-income (at least 50% and less than 80% of the AA median family income).

The local economy is stable and diversified into manufacturing, retail, and agriculture. As of March 2008, the county unemployment rates in this AA were: Highland County 7.2%, Fayette County 5.4%, and Ross County 7.4%. The state of Ohio unemployment rate was 6.1% and the national unemployment rate was 5.2% for the same time period. Highland and Ross counties exceeded both the state and national unemployment rates and Fayette County exceeded the national unemployment rate for March 2008. However, per discussion with management, the local economy is presently overall stable.

The major employers in Highland County include RR Donnelley, Johnson Controls, Weastec, Wal-mart, and the local school districts. The major employers in Fayette County are Sugar Creek Packaging Co., Fayette County government offices, YUSA Corp., Walmart Distribution Center, Lowes Distribution Center and the local school districts. Major employers in Ross County include the local school systems and government offices. Many residents in the community are also employed by DHL in Clinton County.

### ***Columbus MSA AA***

The Columbus MSA AA is comprised of all of Madison County with the exception of the northern most census tract due to the distance away from the branch offices. Madison County is contiguous to Fayette County. Madison County is located north of Fayette County and west of Columbus, Ohio. London is the largest city in Madison County and the county seat. The bank has one office in the Columbus MSA AA located in London, in a middle-income census tract.

The Columbus MSA AA is comprised of one moderate-income (11%), seven middle-income (78%), and one upper-income (11%) geography. The population of the Columbus MSA AA is 34,314, with 8% of the population living in moderate-income and 92% in middle-income geographies. Less than one percent of the population lives in the upper-income geography. Sixty-eight percent of the housing units are owner-occupied, with 6% of them in moderate-income and 94% in middle-income areas. Eight percent of the households are living below the poverty level and 26% of the households receive social security benefits. Nineteen percent of the households are retired. The median housing value is \$102,474; the average median age of housing is 44 years. The weighted average monthly gross rent is \$517.

According to the 2000 U.S. Census Data, the Columbus MSA median family income is \$54,708. The Department of Housing and Urban Development's (HUD) estimate of the Columbus MSA median family income was \$64,200 for 2007. Approximately 18% of the families in the AA are low-income and 23% are moderate-income.

The local economy is stable and diversified into manufacturing and retail. As of March 2008, the unemployment rate in Madison County was 5.5%, which is slightly higher than the national rate, but lower than the state rate. The major employers in Madison County include Stanley Electric Co., London Industries, and the local school districts.

### ***Cincinnati MSA AA***

The Cincinnati MSA AA is comprised of four census tracts in northern Brown County. Brown County is contiguous to and directly west and south of Highland County. Brown County is located east of Cincinnati, Ohio. The bank has one office in the Cincinnati MSA AA located in Mount Orab, Ohio, which was opened in 2006 (since the last CRA examination).

The Cincinnati MSA AA is comprised of one moderate-income (25%) and three middle-income (75%) geographies. The population of the Cincinnati MSA AA is 25,261, with 17% of the population living in moderate-income and 83% in middle-income

geographies. Seventy-six percent of the housing units are owner-occupied, with 16% of them in moderate-income and 84% in middle-income areas. Nine percent of the households are living below the poverty level and 25% of the households receive social security benefits. Sixteen percent of the households are retired. The median housing value is \$92,742; the average median age of housing is 29 years. The weighted average monthly gross rent is \$475.

According to the 2000 U.S. Census Data, the Cincinnati MSA median family income is \$54,771. The Department of Housing and Urban Development's (HUD) estimate of the Cincinnati MSA median family income was \$63,600 for 2007. Approximately 24% of the families in the AA are low-income and 24% are moderate-income.

The local economy is stable and diversified into manufacturing, health services, and retail. As of March 2008, the unemployment rate in Brown County was 7.2%, which is higher than the state and national rates. The major employers in Brown County include Milacron, Inc., Brown County General Hospital, and the local school districts.

## Conclusions with Respect to Performance Tests

- Based on the criteria for the CRA lending and CD tests, this bank's performance is satisfactory.

### LENDING TEST

- Based on the criteria for the CRA Lending Test, this bank's performance is rated satisfactory for each of the AAs.

### Loan-to-Deposit Ratio

- **The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs and meets the requirements for outstanding performance.**

MNB's LTD ratio is more than reasonable. The average LTD ratio calculated over the last 13 quarters is 101% (December 31, 2004 to December 31, 2007). The bank's quarterly loan-to-deposit ratio ranged from a low of 97% at March 31, 2007, to a high of 103% at December 31, 2007. For the majority of the evaluation period, the LTD ratio has been slightly over 100%. The bank's LTD ratios compare favorably with peer banks. The average LTD ratio for similarly situated banks in the bank's AA is approximately 92% over the same time period and the national peer average is 89% as of December 31, 2007. The average LTD ratios for the similarly situated banks ranged from 73% to 118%, with MNB being the second highest. In summary, the bank's quarterly average and present LTD ratios are more than reasonable given the bank's size, financial condition, and AA credit needs.

## Lending in Assessment Area

- **The bank's record of lending within their AA is reasonable and supports satisfactory performance, with a majority of the bank's lending inside the AA.**

As outlined in the description of the institution above, the bank's primary loan types are residential real estate and small business loans (commercial and commercial real estate loans). We analyzed a sample of loans that included all of the bank's residential real estate loans reported on the bank's 2005-2007 HMDA Loan Application Registers and 20 business loans that the bank originated during the evaluation period. According to that sample, the bank made 83% of the number of loans in the sample within its AA. Table 1 details the bank's lending within the AA by number and dollar volume. This table demonstrates that a majority of the loans in our samples were made inside the bank's AA.

| <b>Table 1 - Lending in the AA</b> |                 |     |         |     |       |                             |     |          |     |          |
|------------------------------------|-----------------|-----|---------|-----|-------|-----------------------------|-----|----------|-----|----------|
| Loan Type                          | Number of Loans |     |         |     |       | Dollars of Loans (in 000's) |     |          |     |          |
|                                    | Inside          |     | Outside |     | Total | Inside                      |     | Outside  |     | Total    |
|                                    | #               | %   | #       | %   |       | \$                          | %   | \$       | %   |          |
| Home Purchase                      | 332             | 80% | 85      | 20% | 417   | \$33,759                    | 76% | \$10,538 | 24% | \$44,297 |
| Home Refinance                     | 412             | 85% | 74      | 15% | 486   | \$37,932                    | 83% | \$ 8,003 | 17% | \$45,935 |
| Home Improvement                   | 85              | 87% | 13      | 13% | 98    | \$ 2,895                    | 75% | \$ 948   | 25% | \$ 3,843 |
| Business Loans                     | 16              | 80% | 4       | 20% | 20    | \$ 2,449                    | 93% | \$ 181   | 7%  | \$ 2,630 |
| Totals                             | 845             | 83% | 176     | 17% | 1,021 | \$77,035                    | 80% | \$19,670 | 20% | \$96,705 |

*Source: 2005, 2006, and 2007 data reported under HMDA and sample of business loans from the same time period.*

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

- MNB's lending to borrowers of different income levels and businesses of different sizes is reasonable and reflects satisfactory performance.

During the evaluation period, the bank made a substantial majority of its residential real estate loans in the Non-MSA AA (84%). The bank made 12% of its residential real estate loans in the Columbus MSA AA and 4% in the Cincinnati MSA-AA. Therefore, more weight was placed on the results of the Non-MSA AA to assess the lending to borrowers of different incomes and to businesses of different sizes.

### Non-MSA AA

The distribution of residential real estate lending reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers, in the Non-MSA AA, which demonstrates satisfactory performance. Based on the residential

real estate loan sample, the distribution to borrowers in different income categories reflects penetration to all income categories. Lending to low-income borrowers (13%) is less than the percentage of low-income families in the AA (19%); however, lending to moderate-income borrowers (20%) is equivalent to the moderate-income families in the AA (20%). As identified earlier in this report, 12% of the families in the Non-MSA AA live below the poverty level. Those families living below the poverty level may have difficulty meeting MNB's credit standards for home mortgage loans. Twenty-five percent of the occupied housing units in the AA are rental units. Ten percent of the housing units in the AA are vacant. None of the census tracts in the bank's AA are low-income tracts. There are also many other banking institutions in the area providing additional competition for loans. Overall, the bank's performance in residential real estate lending reflects satisfactory performance.

The penetration of loans to small businesses is reasonable and meets the standards for satisfactory performance in the Non-MSA AA. In this AA, the bank made 80% of their loans to businesses with annual gross revenues of less than \$1 million. This compares very favorably to the 56% of businesses in the AA with gross revenues of less than \$1 million.

Refer to Tables 2 and 3 for specific details on the loans made to low- and moderate-income borrowers and to businesses with annual gross revenues of less than \$1 million.

| Borrower Income Level | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      | NA               |                      |
|-----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
|                       | % 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         |                  | 11%                  |                  | 20%                  |                  | 22%                  |                  | 44%                  |                  | 3%                   |
| Home Refinance        |                  | 11%                  |                  | 20%                  |                  | 25%                  |                  | 40%                  |                  | 4%                   |
| Home Improvement      |                  | 27%                  |                  | 16%                  |                  | 23%                  |                  | 34%                  |                  | 0%                   |
| Total                 | 19%              | 13%                  | 20%              | 20%                  | 25%              | 23%                  | 36%              | 41%                  | 0%               | 3%                   |

Source: HMDA loans originated from January 1, 2005, through December 31, 2007; 2000 U.S. Census data, updated as of 2007.

| <b>Table 3 – Borrower Distribution of Loans to Businesses in the Non-MSA AA</b> |  |   |                            |              |
|---|--|---|----------------------------|--------------|
| <b>Business Revenues (or Sales)</b>   | <b>Less than or equal to \$1,000,000</b> | <b>Greater than or equal to \$1,000,000</b> | <b>Unavailable/Unknown</b> | <b>Total</b> |
| % of AA Businesses  | 56%                                      | 3%  | 41%                        | 100%         |
| % of Bank Loans in AA by #  | 80%                                      | 20%   | 0%                         | 100%         |
| % of Bank Loans in AA by \$   | 81%                                      | 19%   | 0%                         | 100%         |

*Source: Business loan sample and U.S. Census data, updated as of 2007.*

### **Columbus MSA AA**

The distribution of residential real estate lending reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers, in the Columbus MSA AA, demonstrating satisfactory performance. Based on the residential real estate loan sample, the distribution to borrowers in different income categories reflects penetration to all income categories. Lending to low-income borrowers (11%) is less than the percentage of low-income families in the AA (18%), as is the lending to moderate-income borrowers (18%) compared to the moderate-income families in the AA (23%). As identified earlier in this report, 8% of the families in the Columbus MSA AA live below the poverty level. Those families living below the poverty level may have difficulty meeting MNB's credit standards for home mortgage loans. Twenty-six percent of the occupied housing units in the AA are rental units. Five percent of the housing units in the AA are vacant. None of the census tracts in the bank's AA are low-income tracts. There are also many other banking institutions in the area providing additional competition for loans. The bank only made 12% of their mortgage loans during the evaluation period in this AA. Overall, the bank's performance in residential real estate lending reflects satisfactory performance.

The penetration of loans to small businesses is reasonable and meets the standards for satisfactory performance in the Columbus MSA AA. In this AA, the bank made 85% of the number of loans to businesses with annual gross revenues of less than \$1 million. This compares very favorably to the 61% of businesses in the AA with gross revenues of less than \$1 million.

Refer to Tables 4 and 5 for specific details on the loans made to low- and moderate-income borrowers and to businesses with annual gross revenues of less than \$1 million.

| Borrower Income Level | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      | NA               |                      |
|-----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
|                       | % 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         |                  | 13%                  |                  | 15%                  |                  | 31%                  |                  | 37%                  |                  | 4%                   |
| Home Refinance        |                  | 10%                  |                  | 20%                  |                  | 26%                  |                  | 42%                  |                  | 2%                   |
| Home Improvement      |                  | 0%                   |                  | 17%                  |                  | 33%                  |                  | 50%                  |                  | 0%                   |
| Total                 | 18%              | 11%                  | 23%              | 18%                  | 26%              | 28%                  | 33%              | 40%                  | 0%               | 3%                   |

Source: HMDA loans originated from January 1, 2005, through December 31, 2007; 2000 U.S. Census data, updated as of 2007.

| Business Revenues (or Sales) | Less than or equal to \$1,000,000 | Greater than or equal to \$1,000,000 | Unavailable/Unknown | Total |
|------------------------------|-----------------------------------|--------------------------------------|---------------------|-------|
| % of AA Businesses           | 61%                               | 4%                                   | 35%                 | 100%  |
| % of Bank Loans in AA by #   | 85%                               | 15%                                  | 0%                  | 100%  |
| % of Bank Loans in AA by \$  | 43%                               | 57%                                  | 0%                  | 100%  |

Source: Business loan sample and U.S. Census data, updated as of 2007.

### **Cincinnati MSA AA**

The distribution of residential real estate lending reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers in the Cincinnati MSA AA, demonstrating satisfactory performance. Based on the residential real estate loan sample, the distribution to borrowers in different income categories reflects penetration to all income categories. The lending to moderate-income borrowers (26%) compares favorably to the moderate-income families in the AA (24%). However, lending to low-income borrowers (6%) is significantly less than the percentage of low-income families in the AA (24%). As identified earlier in this report, 9% of the families in this AA live below the poverty level. Those families living below the poverty level may have difficulty meeting MNB's credit standards for home mortgage loans. Sixteen percent of the occupied housing units in the AA are rental units. Eight percent of the housing units in the AA are vacant. None of the census tracts in the bank's AA are low-income tracts. There are also many other banking institutions in the area providing additional competition for loans. The bank opened a branch in the Cincinnati MSA AA in 2006. The bank is still trying to market their products and increase lending in this AA. The bank only made 4% of their mortgage loans during the evaluation period in this AA. Management anticipates that as the bank's lending volume in this area increases over time, lending to lower-income borrowers should improve.

The penetration of loans to small businesses is reasonable and meets the standards for satisfactory performance in the Cincinnati MSA AA. In this AA, the bank made 90% of their loans to businesses with annual gross revenues of less than \$1 million. This compares very favorably to the 59% of businesses in the AA with gross revenues of less than \$1 million.

Refer to Tables 6 and 7 for specific details on the loans made to low- and moderate-income borrowers and to businesses with annual gross revenues of less than \$1 million.

| <b>Table 6 – Borrower Distribution of Residential Real Estate Loans in the Cincinnati MSA AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |                  |                      |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level  | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      | NA               |                      |
|  | % 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  |                  | 8%                   |                  | 23%                  |                  | 23%                  |                  | 38%                  |                  | 8%                   |
| Home Refinance   |                  | 5%                   |                  | 25%                  |                  | 50%                  |                  | 20%                  |                  | 0%                   |
| Home Improvement   |                  | 0%                   |                  | 50%                  |                  | 50%                  |                  | 0%                   |                  | 0%                   |
| Total  | 24%              | 6%                   | 24%              | 26%                  | 27%              | 40%                  | 25%              | 26%                  | 0%               | 2%                   |

Source: HMDA loans originated from January 1, 2005, through December 31, 2007; 2000 U.S. Census data, updated as of 2007.

| <b>Table 7 – Borrower Distribution of Loans to Businesses in the Cincinnati MSA AA</b> |                                   |                                      |                     |       |
|--|-----------------------------------|--------------------------------------|---------------------|-------|
| Business Revenues (or Sales)   | Less than or equal to \$1,000,000 | Greater than or equal to \$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses   | 59%                               | 2%                                   | 39%                 | 100%  |
| % of Bank Loans in AA by #   | 90%                               | 10%                                  | 0%                  | 100%  |
| % of Bank Loans in AA by \$  | 76%                               | 24%                                  | 0%                  | 100%  |

Source: Business loan sample and U.S. Census data, updated as of 2007.

### Geographic Distribution of Loans

- MNB's geographic distribution of loans reflects reasonable dispersion to all areas within its AA, including moderate-income areas, and is reflective of satisfactory performance. Our analysis reflected lending in all income-level tracts with no conspicuous gaps.

**Non-MSA AA**

Lending to geographies of different income levels in the Non-MSA AA reflects reasonable dispersion and demonstrates satisfactory performance. Within the Non-MSA AA, there are no low-income census tracts and only two moderate-income census tracts, out of a total of 17 census tracts. The moderate-income census tracts only represent 12% of the total geographies in the AA. MNB made a substantial majority (84%) of all of its home mortgage loans during the evaluation period in the Non-MSA AA (Highland, Fayette, and Ross Counties).

The distribution of residential real estate loans to moderate-income geographies is reasonable and represents satisfactory performance. The bank made 10% of their home mortgage loans to borrowers in moderate-income census tracts, which is reasonable when compared to the 10% of owner-occupied housing units in the AA being located in moderate-income geographies. See Table 8 below for specific details on home purchase, home refinance, and home improvement loans made to low- and moderate-income geographies.

The geographic dispersion of business loans in the Non-MSA AA is reasonable and reflective of satisfactory performance. The bank made 5% of the number of business loans in the moderate-income census tract, which is reasonable when compared to the 7% of businesses in those tracts. Refer to Table 9 for more details.

| <b>Table 8 – Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA</b> |                                   |                      |                                |                      |                                |                      |                                     |                      |
|---|-----------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|-------------------------------------|----------------------|
| Census Tract Income Level   | Low                               |                      | 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 | % of AA Owner Occupied Housing      | % of Number of Loans |
| Home Purchase   | No low-income census tracts in AA |                      | 10%                            | 8%                   | 90%                            | 92%                  | No upper-income census tracts in AA |                      |
| Home Refinance  |                                   |                      | 10%                            | 11%                  | 90%                            | 89%                  |                                     |                      |
| Home Improvement  |                                   |                      | 10%                            | 13%                  | 90%                            | 87%                  |                                     |                      |
| TOTAL   |                                   |                      | 10%                            | 10%                  | 90%                            | 90%                  |                                     |                      |

Source: HMDA loans originated from January 1, 2005, through December 31, 2007; 2000 U.S. Census data, updated as of 2007.

| <b>Table 9 - Geographic Distribution of Loans to Businesses in the Non-MSA AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level   | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan type   | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans  | 0%                 | 0%                   | 7%                 | 5%                   | 93%                | 95%                  | 0%                 | 0%                   |

Source: Business Loan Sample; 2000 U.S. Census data, updated as of 2007.

### Columbus MSA AA

Lending to geographies of different income levels in the Columbus MSA AA reflects reasonable dispersion and demonstrates satisfactory performance. Within the Columbus MSA AA, there are no low-income census tracts and only one moderate-income census tract, out of a total of nine census tracts in that AA. The moderate-income census tract represents 11% of the total geographies in the AA. MNB makes a substantial majority of all of its home mortgage loans in the Non-MSA AA. The bank made 12% of their mortgage loans during the evaluation period in this AA.

The distribution of residential real estate loans to moderate-income geographies in the Columbus MSA AA is reasonable and represents satisfactory performance. The bank made 8% of their home mortgage loans to borrowers in the moderate-income census tract, which is more than reasonable when compared to the 6% of AA's owner-occupied housing units being in the moderate-income geography in the AA. The bank's percentage of loans in moderate-income geographies exceeded the percentage of owner-occupied units in the moderate-income tract of the AA. See Table 10 below for specific details on home purchase, home refinance, and home improvement loans made to low- and moderate-income geographies.

The geographic dispersion of business loans in the Columbus MSA AA is reasonable and reflective of satisfactory performance. The bank made 15% of the number of business loans in the moderate-income census tract, which is more than the 13% of the AA businesses located in that tract. The bank's branch in this AA is located in a middle-income census tract. The moderate-income census tract is a very small area located just below the middle-income census tract where the bank's branch is located. Refer to Table 11 for more details.

| Census Tract Income Level | Low                               |                      | 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 | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Purchase             | No low-income census tracts in AA |                      | 6%                             | 9%                   | 94%                            | 91%                  | <1%                            | 0%                   |
| Home Refinance            |                                   |                      | 6%                             | 8%                   | 94%                            | 92%                  | <1%                            | 0%                   |
| Home Improvement          |                                   |                      | 6%                             | 0%                   | 94%                            | 100%                 | <1%                            | 0%                   |
| TOTAL                     |                                   |                      | 6%                             | 8%                   | 94%                            | 92%                  | <1%                            | 0%                   |

Source: HMDA loans originated from January 1, 2005, through December 31, 2007; 2000 U.S. Census data, updated as of 2007.

| Census Tract Income Level | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
|---------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Loan type                 | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans            | 0%                 | 0%                   | 13%                | 15%                  | 87%                | 85%                  | 0%                 | 0%                   |

Source: Business Loan Sample; 2000 U.S. Census data, updated as of 2007.

### **Cincinnati MSA AA**

Lending to geographies of different income levels in the Cincinnati MSA AA reflects reasonable dispersion and demonstrates satisfactory performance. Within the Cincinnati MSA AA, there are no low-income census tracts and only one moderate-income census tract, out of a total of four census tracts in that AA. MNB makes a substantial majority of all of its home mortgage loans in the Non-MSA AA. The bank made only 4% of their mortgage loans during the evaluation period in this AA. The bank opened a branch in Mount Orab, Ohio in the Cincinnati MSA in 2006. The bank is trying to market their products and increase their lending volume in this AA according to bank management.

The distribution of residential real estate loans to moderate-income geographies is reasonable and represents satisfactory performance. The bank made 26% of their home mortgage loans to borrowers in the moderate-income census tract, which is more than reasonable when compared to the 16% of AA owner-occupied housing units located in the moderate-income geography. The bank's percentage of loans in the moderate-income geography significantly exceeded the percentage of owned-occupied units in the moderate-income tract of the AA, representing satisfactory performance. See Table 12 below for specific details on home purchase, home refinance, and home improvement loans made to low- and moderate-income geographies.

The geographic dispersion of business loans in the Cincinnati MSA AA is reasonable and reflective of satisfactory performance, given the amount of time the bank has been in this AA. The bank made 10% of the number of business loans in the moderate-income census tract, which is less than the 19% of businesses located in that tract. The overall percentage of loans to businesses in the moderate-income census tract is below the percentage of businesses residing in that area. A potential contributing factor to the lower penetration in the moderate-income tract is that the bank has no offices in this geography. Also, the bank did not include this area in the AA until they opened a branch in the Cincinnati MSA AA in 2006. The bank is working on increasing the lending volume in this AA through marketing efforts. The lending volume is expected to increase over the next few years per discussion with management. Refer to Table 13 for more details.

| <b>Table 12 - Geographic Distribution of Residential Real Estate Loans in the Cincinnati MSA AA</b> |                                   |                      |                                |                      |                                |                      |                                     |                      |
|---|-----------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|-------------------------------------|----------------------|
| Census Tract Income Level   | Low                               |                      | 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 | % of AA Owner Occupied Housing      | % of Number of Loans |
| Home Purchase   | No low-income census tracts in AA |                      | 16%                            | 15%                  | 84%                            | 85%                  | No upper-income census tracts in AA |                      |
| Home Refinance  |                                   |                      | 16%                            | 35%                  | 84%                            | 65%                  |                                     |                      |
| Home Improvement  |                                   |                      | 16%                            | 0%                   | 84%                            | 100%                 |                                     |                      |
| TOTAL   |                                   |                      | 16%                            | 26%                  | 84%                            | 74%                  |                                     |                      |

Source: HMDA loans originated from January 1, 2005, through December 31, 2007; 2000 U.S. Census data, updated as of 2007.

| <b>Table 13 - Geographic Distribution of Loans to Businesses in the Cincinnati MSA AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level   | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan type   | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans  | 0%                 | 0%                   | 19%                | 10%                  | 81%                | 90%                  | 0%                 | 0%                   |

Source: Business Loan Sample; 2000 U.S. Census data, updated as of 2007.

## Responses to Complaints

MNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

## COMMUNITY DEVELOPMENT TEST

The bank's community development (CD) performance is satisfactory. Performance in the Non-MSA and Columbus MSA AAs is adequate. Performance in the Cincinnati MSA AA needs to improve; however, the bank has only been in this AA since they opened their branch in this area in 2006. Overall, the bank has been adequately responsive to CD needs through CD services and loans, considering the bank's capacity and the need, and availability of such opportunities for CD in the bank's AA. The bank's level of investments is adequate.

The evaluation period for CD loans, investments, and services was November 16, 2004 to April 11, 2008.

## **Number and Amount of Community Development Loans**

MNB's amount of CD loans is satisfactory, as the bank is adequately responsive to the CD needs of the AA through CD loans. During this evaluation period, the bank made nine loans totaling \$966,960 within the Non-MSA AA and made nine loans totaling \$558,234 in the Columbus MSA AA. The bank did not make any CD loans in the Cincinnati MSA during the evaluation period. Descriptions of the loans can be found below.

### **Non-MSA AA**

MNB made nine CD loans through four organizations during the evaluation period, totaling \$966,960, which represents adequate responsiveness. They made the loans to the following organizations: Turning Point Applied, My Sister's House, A Place for Youth LLC, and Fayette Metropolitan Housing. These organizations provide affordable housing for low- and moderate-income families or provide services to low- and moderate-income individuals or areas (battered women's shelter and training facility serving low- to moderate-income individuals).

### **Columbus MSA AA**

MNB made nine CD loans through two organizations during the evaluation period, totaling \$558,234, which represents adequate responsiveness. They made loans to the following organizations: A Friend's House and Fairbrook Homes, Inc. Fairbrook Homes provides affordable housing to low- and moderate-income families. A Friend's House provides food and shelter for victims of domestic violence.

### **Cincinnati MSA AA**

The bank did not make any CD loans in this AA during the evaluation period. The bank opened a branch in Mount Orab, Ohio in the Cincinnati MSA in 2006. According to management, they are looking for opportunities to make CD loans in this AA, but to date they have not made any. The bank's level of CD loans needs to improve as the bank's responsiveness to CD needs of this AA through CD lending is poor.

## **Number and Amount of Qualified Investments**

MNB's amount of qualified CD investments is satisfactory, as the bank is adequately responsive to the CD needs of the AA through CD investments. The number, amount, and descriptions of the qualified investments/donations can be found below for each AA.

### **Non-MSA AA**

MNB's level of CD investments is adequate given the asset size and the capacity of the bank in the Non-MSA AA. We based our review on the volume and types of investments made by the bank relative to the CD opportunities of the AA. During the evaluation period, MNB made forty-two qualifying donations to twenty-five organizations totaling \$31,713. None of the investments made by the bank are considered innovative or complex.

### **Columbus MSA AA**

MNB's level of CD investments is adequate given the asset size and the capacity of the bank in the Columbus MSA AA. During the evaluation period, MNB made fourteen qualifying donations to eight organizations totaling \$3,553. None of the investments made by the bank are considered innovative or complex.

### **Cincinnati MSA**

MNB's level of CD investments needs to improve, as the bank's responsiveness to CD needs of this AA through CD investments is poor. The bank has not made any qualifying investments/donations during the evaluation period in this AA.

### **Number and Amount of Qualified Grants and Donations**

Notable qualifying grants and donations made in the Non-MSA AA and Columbus MSA AA include the following:

- Organizations which provide educational, health and other social services to low- and moderate-income families;
- Food banks which provide groceries and other items to low- and moderate-income families;
- Organizations which provide housing, medical treatment and life skills training, and other social services for low- and moderate-income families (including persons who are homeless);
- Organizations that provide services for victims of domestic violence, primarily low- and moderate-income individuals and/or families;
- Habitat for Humanity, which builds homes in partnership with families in need;
- An organization that provides assistance and health services to Highland County residents who need help for expenses for necessary medical treatment, transportation to hospitals, and health equipment and devices, primarily low- and moderate-income individuals and/or families; and
- Organizations that provide employment assistance to low- and moderate-income individuals.

### **Extent to Which the Bank Provides Community Development Services**

CD Services provided by the bank represent adequate responsiveness and demonstrates satisfactory performance.

The bank's retail banking delivery systems are satisfactory. The systems are reasonably accessible to geographies and individuals of different income levels in the AA. Financial services are offered at each branch and business hours do not vary in a manner that inconveniences any portion of the AA, particularly low- to moderate-income geographies and families. The bank has eight branch offices; six offices are within the Non-MSA AA, one office is in the Columbus MSA AA, and one office in the Cincinnati MSA AA. All of the bank's offices are located in middle-income geographies, as a substantial majority of the geographies in that area are middle- and upper-income geographies. The entire AA contains only four moderate-income census tracts and no low-income census tracts. There are two moderate-income census tracts in the non-MSA AA and one in each of the other two MSA AAs. The bank maintains six 24-hour

ATMs. There are four ATMs in the Non-MSA AA and one in each of the other two MSA AAs.

MNB employee involvement in CD services is good in all the AAs. MNB is represented on major community groups active in meeting housing, services, and economic needs of the low- and moderate-income individuals and areas. These organizations provide essential services to low- and moderate-income individuals as well as services to organizations dedicated to promoting economic development and creating or improving jobs for low- or moderate-income geographies or individuals.

Bank officers and employees serve on boards or as volunteers for numerous local social service and community development organizations, offering technical assistance and expertise. During 2007, nine bank employees served as Board members or in a service capacity for fifteen organizations targeted towards assisting low- and/or moderate-income individuals or families in Clinton, Fayette, Madison, Brown, Ross, Adams and Highland counties. For example, some of the organizations that employees serve include the following (but not limited to): Turning Point Adult Alternative Learning Center, Highland County Metropolitan Housing Authority, CIC Highland County, Habitat for Humanity in two counties, Workforce Development Board, Supplemental Aide to the Handicapped, Clinton County Women's Shelter, Community Action Board, and South Central Development Corp.

MNB participates in a loan program which targets low- and moderate-income borrowers. The Federal Home Loan Bank of Cincinnati (FHLBC) offers a program called "Welcome Home" that provides down payment assistance funds to borrowers who meet the income criteria. Since MNB is a member of the FHLBC, they are permitted to use these grants to assist borrowers. The funds are specifically allocated for households whose incomes are below 80% of Mortgage Revenue Bond income limits as adopted by the appropriate state housing finance agency, adjusted for family size. During the evaluation period, the bank used grants from this program for 26 loans totaling approximately \$1.5 million

In addition, MNB offers several services targeted to low- and moderate-income individuals, including the following:

- MNB assists Habitat for Humanity by servicing its loan payments and providing financial reporting to Habitat for Humanity free of charge, thus reducing operating costs and improving efficiency for Habitat for Humanity. MNB is in the process of a similar service for South Central Development Corp., which provides services to low- and moderate-income individuals.
- MNB offers MNB Free Checking, a no service fee charge checking account targeted to low- and moderate-income customers.
- MNB sponsors a school banking program (weekly savings program for children through 6<sup>th</sup> grade) to help introduce the importance of good savings habits to students at local schools.

### **Responsiveness to Community Development Needs**

MNB is adequately responsive to CD needs of the AA through CD lending, investments, and services. The Non-MSA AA and Columbus MSA AA reflect satisfactory CD performance. The CD performance in the Cincinnati MSA AA needs to improve. However, the bank has not been in this AA for a very long period. The bank opened a branch in the Cincinnati MSA AA in 2006, and they are still trying to penetrate this AA.

### **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.