



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 22, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Adams County of West Union
Charter Number 13198

218 N. Market Street
West Union, Ohio 45693

Office of the Comptroller of the Currency

Central Ohio Field Office
325 Cramer Creek, 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.

All of the lending performance criteria meet or exceed the standards for satisfactory performance. The major factors that support the Satisfactory rating are:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and community lending needs.
- A substantial majority of the loans originated during the evaluation period were within the bank's assessment area (AA).
- The distribution of loans to borrowers among different income levels and to farms of different sizes is reasonable.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.

SCOPE OF EXAMINATION

We performed a small bank CRA examination of The National Bank of Adams County (NBAC) using financial data as of March 31, 2010. The purpose of the examination was to assess NBAC's record of meeting the credit needs of its entire community, including low- and moderate-income areas. The evaluation period for lending activity included loans originated between January 1, 2008 and April 3, 2010. The loan-to-deposit ratio was reviewed using both a current and 25-quarter average. Analysis of lending performance inside the identified AA, borrower income distribution, and geographical distribution was based on loan origination data from a sample of 20 residential real estate, 20 consumer, and 20 agricultural loans.

Table 1 reflects the bank's lending products (by number and dollars) during the evaluation period. Residential real estate, consumer, and agricultural lending activities represent the bank's primary loan products during the evaluation period and are included in our analysis.

Table 1 – NBAC's Lending Products During Evaluation Period		
Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Residential Real Estate Loans	55%	27%
Consumer Loans	16%	61%
Commercial Real Estate Loans	5%	2%
Agricultural Loans	24%	10%
Total	100%	100%

Source: Internally supplied bank reports – January 1, 2008 through April 3, 2010.

Note: Bold indicates primary loan product during the evaluation period.

DESCRIPTION OF INSTITUTION

NBAC is a family-owned and operated community bank with its only office located in West Union, Ohio, approximately 60 miles east of Cincinnati, Ohio. As of March 31, 2010, NBAC reported total assets of \$72 million. The main office has a drive-up facility and an ATM. The bank is located in Census Tract 9904, a moderate-income geography.

NBAC's primary business strategy is lending to individuals (residential real estate and small consumer loans). The bank offers a variety of consumer, commercial, and agricultural lending products to meet the credit needs of the community. Net loans represent 53% of total assets as of March 31, 2010. The bank's primary lending products are residential real estate, consumer, and agricultural loans.

No legal or financial impediments exist that could restrict the institution's ability to serve the community's credit needs. The bank's prior CRA rating was Satisfactory as of the Performance Evaluation dated October 7, 2003.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's AA consists of all of Adams County, Ohio. The AA is comprised of six Census Tracts (CTs) numbered 9901-9906 and is not located within a metropolitan statistical area (MSA). The AA includes four (67%) moderate-income census tracts and two (33%) middle-income census tracts. There are no low- or upper-income geographies in the bank's AA. The two middle-income geographies (9902 and 9903) are listed by the Federal Financial Institution Examination Council (FFIEC) as distressed middle-income nonmetropolitan tracts for 2009, based on an unemployment rate of at least one and a half times the national average. The AA complies with all regulatory requirements. The tracts in the AA are contiguous and surround the area where the bank is located. There are no conspicuous gaps, and the AA does not arbitrarily exclude any low- or moderate-income geographies.

As of the 2000 U.S. Census data, the AA has a population of 27,330, of which 18% are living below the poverty level and 4% receive some form of public assistance. Of the AA's 15,070 housing units, 7,761 or 52% are owner-occupied. The median housing value for the AA is \$63,800. The Department of Housing and Urban Development's (HUD) estimate of the Ohio statewide non-MSA updated median family income is \$51,600 for 2008 and \$53,800 for 2009 and 2010.

The economic status of families and geographies is categorized as low-, moderate-, middle-, and upper-income using the following definitions. Low-income is defined as an individual income or a geography that is less than 50% of the Ohio statewide non-MSA updated median family income. Moderate-income means an individual income or a geography that is at least 50% and less than 80% of the Ohio statewide non-MSA updated median family income. Middle-income is defined as an individual income or a geography that is at least 80% and less than 120% of the Ohio statewide non-MSA

updated median family income. Upper-income means an individual income or a geography that is 120% or more of the Ohio statewide non-MSA updated median family income.

Table 2 illustrates the distribution of families in the AA by income category and the number of geographies/census tracts in low-, moderate-, middle- and upper-income areas.

Table 2 – AA Income Composition by Families and Geographies								
Income Designation	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	%	#	%	#	%	#	%
Families	2,140	28.09%	1,717	22.54%	1,577	20.70%	2,185	28.67%
Census Tracts	0	0.00%	4	66.33%	2	33.33%	0	0.00%

Source: 2000 U.S. Census Data

Adams County has been experiencing negative trends due to the current economic decline and increasing unemployment levels. Per statistics compiled by the Bureau of Labor Statistics (BLS), Adams County’s annual unemployment rate as of December 2008 was 9.3%, and rose to 14.4% for December 2009, and 16.5% as of March 2010. The unemployment rate in Adams County is above both the State of Ohio and the national unemployment rates of 11.5% and 10.2%, respectively, as of March 2010.

The major employers in Adams County include Dayton Power and Light Company, General Electric Company, Adams County Government, Adams County Hospital, and Adams Co/Ohio Valley Local Board of Education. Competition in the AA is moderate and is represented by regional financial institutions, as well as locally owned savings and loans and state banks. Per the Federal Deposit Insurance Corporation’s database, NBAC had approximately 18.5% of Adams County’s market share of total deposits as of June 30, 2009.

We contacted two members of the local community. The contacts indicated that the economic condition of Adams County had declined over the last couple of years, with high unemployment rates in the county. The contacts identified home mortgage, farm, and small business loans as the primary credit needs of the AA, and stated that these credit needs were being met by local financial institutions. Additionally, one contact indicated that a nearby employer plans to close and relocate its operations to Michigan. Per discussion with the contact, this will impact approximately 1,200 employees, some of which reside in the local area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

The bank's lending performance is based on its residential real estate, consumer, and agricultural loans which originated during the evaluation period beginning January 1, 2008 and ending April 3, 2010. These products are considered the bank's primary lending products based on the volume originated during this period. We selected a sample of 20 of each loan type in order to evaluate the level and trends of lending within the AA. Any loans which were originated outside of the AA were then eliminated and additional loans within the AA were added to the samples to return the total number of loans for each sample to 20 in order to perform the Borrower and Geographic Distribution analyses.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio of 61.74% as of December 31, 2009 is reasonable, and supports satisfactory performance. NBAC's average LTD ratio over the last 25 quarters since the prior CRA examination (December 31, 2003 through December 31, 2009) of 62.86% is also reasonable. The LTD ratio has remained relatively stable from quarter to quarter, fluctuating from a low of 56.83% at March 30, 2004, to a high of 68.62% at December 31, 2004. For analysis purposes, NBAC's current and 25-quarter average LTD ratios were compared with a custom peer group consisting of four similarly situated Ohio banks which are located in Champaign County, Morgan County, Meigs County, and Adams County. NBAC's 25-quarter average LTD ratio is lower than the 25-quarter averages of its respective peers of 76.87%, 82.41%, 81.43%, and 72.24%. The custom peer group low LTD ratio was 61.69% and the high LTD ratio was 94.33%. NBAC's lower average LTD ratio is reflective of a balance sheet structure that maintains a large amount of asset-based liquidity, as well as conservative underwriting standards.

Lending in Assessment Area

The substantial majority of the loans in our sample are inside the AA, which supports outstanding performance in this area. Based on a review of internal bank reports, NBAC's primary loan types consist of residential real estate, consumer loans, and agricultural loans. We sampled 20 loans from each loan type which were originated from January 1, 2008 through April 3, 2010. Table 3 on the following page illustrates the results, by product, of the bank's lending to meet the credit needs of borrowers within its AA. The substantial majority of all loan types sampled during the evaluation period were originated within the AA, both by the number of originations and by dollar amount. By number, 97% of the bank's loans originated during the evaluation period were inside the AA; and by dollar volume, 98% of the loans originated during this period were inside the AA.

Table 3 – Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	19	95%	1	5%	20	\$1,439,293	97%	\$49,834	3%	\$1,489,127
Consumer Loans	20	100%	0	0%	20	\$ 472,764	100%	\$0	0%	\$ 472,764
Agricultural Loans	19	95%	1	5%	20	\$1,280,501	99%	\$7,809	1%	\$1,288,310
Totals	58	97%	2	3%	60	\$3,192,558	98%	\$57,643	2%	\$3,250,201

Source: Loan Sample

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

The overall distribution of residential real estate and consumer lending among individuals of different incomes and lending to farms of different sizes reflects reasonable penetration and supports overall satisfactory performance in this area.

The analysis of the distribution of the residential real estate loan sample shows reasonable penetration among borrowers of different income levels, including low- to moderate-income families. While home loan originations to low-income borrowers as a percentage of total home loans (10%) are less than the percentage of low-income families in the AA (28.09%), the level of home lending to moderate-income borrowers (40%) exceeds the AA demographics for moderate-income families (22.54%). A factor to consider in the lower penetration of home loans to low-income borrowers is that 18% of the population in the AA live below the poverty level and may not be able to meet the bank's credit underwriting criteria to qualify for home loans. Table 4A below reflects the bank's distribution of residential loans by borrower income level and compares this dispersion to the AA's specific family income composition.

Table 4A - Borrower Distribution of Residential Real Estate Loans in the AA								
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 Loans	28.09%	10.00%	22.54%	40.00%	20.70%	15.00%	28.67%	35.00%

Source: Loan Sample; 2000 U. S. Census Data

The analysis of the distribution of the consumer loan sample shows reasonable penetration among borrowers of different income levels, including low-to moderate-income households. The level of consumer lending to low-income borrowers significantly exceeds the percentage of low-income households in the AA. Nearly one third of the households in the AA are low-income and the bank makes 50% of its loans to these borrowers. NBAC’s consumer loan originations to moderate-income borrowers are significantly less than the percentage of moderate-income households in the AA (18.59%). Consumer loans to middle- and upper-income borrowers are in line with Census data. Table 4B below reflects the bank’s distribution of consumer loans by borrower income level and compares this dispersion to the AA’s specific household income composition.

Table 4B - Borrower Distribution of Consumer Loans in AA								
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	32.75%	50.00%	18.59%	5.00%	18.72%	15.00%	29.94%	30.00%

Source: Loan Sample; 2000 U. S. Census Data.

The agricultural loan sample analysis indicates that originations during the evaluation period show excellent penetration among farms of different sizes. All (100%) of the loan originations in our sample were to farms with revenues less than or equal to \$1,000,000. The percentage of farms with reported revenues of less than or equal to \$1,000,000 is 99.21% for the AA. Table 4C below lists the percentages by dollar and number of loans made to farms of different sizes.

Table 4C – Borrower Distribution of Agricultural Loans in the AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	99.21%	0.00%	0.79%	100.00%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100.00%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100.00%

Source: Loan sample; 2009 Business Geo-demographic Data.

Geographic Distribution of Loans

The bank’s geographic distribution of loans reflects excellent dispersion throughout the AA, which exceeds the standards for satisfactory performance in this area. Our analysis found dispersion throughout all of the CTs in the AA. The bank’s AA consists of four moderate-income census tracts and two middle-income census tracts. The bank’s AA does not contain any low- or upper income CTs.

The analysis of the geographic distribution of the residential real estate loan sample reflects an excellent dispersion throughout the AA in geographies of different income levels, including moderate-income CTs. The percentage of residential real estate loans originated in moderate-income geographies (65%) exceeds the percentage of AA owner-occupied housing located in moderate-income geographies (59%). Table 5A below reflects the bank's distribution of residential real estate loans by geographic area and compares this dispersion to the AA's specific geographies.

Table 5A - Geographic Distribution of Residential Real Estate Loans in the AA								
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
Residential Real Estate Loans	0.00%	0.00%	59.12%	65.00%	40.88%	35.00%	0.00%	0.00%

Source: Loan Sample; 2000 U. S. Census Data

The analysis of the geographic distribution of the consumer loan sample reflects reasonable dispersion throughout the AA, including moderate-income census tracts. The percentage of consumer loans originated in moderate-income CTs (65%) is near the percentage of AA households located in moderate-income CTs (62.5%). Table 5B below reflects the bank's distribution of consumer loans by geographic area and compares this dispersion to the AA's specific geographies.

Table 5B - Geographic Distribution of Consumer Loans in AA								
Census Tract 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	0.00%	0.00%	62.47%	65.00%	37.53%	35.00%	0.00%	0.00%

Source: Loan Sample; 2000 U. S. Census Data

The geographic distribution of NBAC's agricultural loans reflects an excellent dispersion in CTs of different income levels, as shown in Table 5C, including moderate-income geographies. Lending in the moderate-income CTs exceeds the percentage of farms in the moderate-income tracts. Forty-five percent of farm loans were originated in moderate-income CTs compared to 38% of AA farms being located in moderate-income CTs.

Table 5C - Geographic Distribution of Agriculture Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agriculture Loans	0.00%	0.00%	38.19%	45.00%	61.81%	55.00%	0.00%	0.00%

Source: Loan sample; 2009 Business Geo-demographic Data.

Responses to Complaints

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

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.