



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 25, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Shelby
Charter Number 1929**

**60 West Main Street
Shelby, OH 44875**

**Comptroller of the Currency
ADC- Northern Ohio
3 Summit Park Drive Summit Office Park, Suite 530
Independence, OH 44131**

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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment (CRA) performance of the First National Bank of Shelby, Shelby, Ohio (FNB) as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of June 25, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25. The last CRA performance evaluation for this institution was prepared February 20, 1997 and resulted in a "Satisfactory" evaluation.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- The bank's quarterly loans to deposit ratios meet the standards for satisfactory performance.
- The bank's record of lending within its assessment area meets the standard for satisfactory performance.
- The bank's lending performance to borrowers of different income levels within the assessment area meets the standards for satisfactory performance.
- Geographic distribution of loans meets the standards for satisfactory performance.
- No consumer complaints have been filed regarding the bank's performance under the Community Reinvestment Act.

DESCRIPTION OF INSTITUTION

The First National Bank of Shelby (FNB) is located in Shelby, Ohio. It is wholly owned by FNB Financial Corporation, a one-bank holding company. As of 12/31/2000, average assets were \$204MM. The bank has eight banking locations. In addition to the main office, there are seven branches and one stand alone ATM. The main office and two branches are located in Shelby. Other branch locations include Plymouth, Crestline, Greenwich, and Shiloh. The Shelby main office, Plymouth downtown office, Greenwich, Shiloh, and Crestline offer full lending and deposit services. The other three offices offer deposit services only. The stand alone ATM is located at the I.G.A Foodliner store in Shelby. All ATMs are walk-up/drive-up ATMs that are 24-hour accessible.

The bank's primary business focus is real estate lending which represents 49% of the banks loan portfolio. The portfolio consists of 33% consumer mortgage lending, 11% commercial real estate lending and 5% farmland, 20% commercial loans, 26% loans to individuals, and 5% agriculture. Traditional banking products are offered and the bank has tailored its services to meet community credit needs. The bank offers conventional purchase money mortgages and makes small balance loans. Net loans to total assets equal 67%.

There are no financial or legal impediments that could prevent the bank from meeting its community credit needs.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area consists of thirty census tracts, which are part of the Mansfield MSA 4800, (six census tracts in Crawford County, and twenty-four census tracts in Richland County) and five block numbering areas in Huron County, a non-MSA area. Of these geographies, 2 (6%) are low-income, 8 (23%) are moderate-income, 22 (63%) are middle-income, and 3 (8%) are upper-income. All bank branch offices and ATMs are located within the designated assessment area. The area is a mix of urban, suburban and rural, with varied manufacturing, health services, and other service industries. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- of moderate-income areas.

Due to the low percentage (14%) of non-MSA geographies included within the bank's assessment area, demographic characteristics regarding median family income for both the MSA and non-MSA were reviewed together. The Departments of HUD's updated median family income for the assessment area is \$45,985 for the year 1999. The 1990 Census Bureau lists the assessment area population at 131,022 persons, which comprises 35,958 families. Of these families 21% are low-income, 19% are moderate-income, 26% are middle-income and 34% are upper-income. Twenty-eight percent of the household income in this assessment area is derived from social security. Households with incomes below the poverty level are 13%, with 9% of the households relying on public assistance. Housing units consist of 64% owner-occupied. The housing units are primarily one-to-four family with a median housing value of \$45,006.

As of May 2001, the Richland County unemployment rate was 4.5%, Crawford County rate was

5.1%, and Huron County rate was 6.4%. All are slightly higher than the state unemployment rate of 3.6% and the national rate of 4.1%. Over the length of the evaluation period, unemployment trends have remained relatively the same with only slight fluctuations.

The local economy is stable and influenced by local employers involved in health care, manufacturing and services. Within the assessment area, the population and economic centers are located in Mansfield and Shelby. The market for financial services is moderately competitive. No financial institutions of similar size operate within the bank’s assessment area. There are, however, several branches of large institutions including, Bank One, National City, and Key Bank, a large savings & loan, Richland Trust, and several smaller savings banks and credit unions.

Several local governmental entities, Richland County Community Development Department and Huron County Development Department, were contacted during the examination. We interviewed local government agencies because of the lack of organized community groups in the area. All indicated a need for small business lending. One indicated a need for low-income housing and rehabilitation for existing housing. They also indicated a need for affordable residential mortgage loans for first time buyers. FNB offers all of these products in their efforts to meet the needs of the community. Other financial institutions in the assessment area also offer these products. Competition for these types of loans is high.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN TO DEPOSIT RATIO

FNB’s loan to deposit ratio meets the standards for satisfactory performance. The average loan to deposit ratio for the years ending 1997 through 2000 is 76.66%. The bank’s loan to deposit ratio exceeds the average performance of other similar sized institutions. No financial institutions of similar size operate within the bank’s assessment area. Therefore, a comparison of local peer banks was not possible. In comparison to its national peer group of banks of similar size (73.4%), FNB’s loan to deposit ratio appears reasonable.

| Loan to Deposit Ratio by Year | | | | | |
|--------------------------------------|-------------|-------------|-------------|-------------|----------------|
| | 1997 | 1998 | 1999 | 2000 | Average |
| FNB | 75.03% | 71.44% | 80.60% | 79.56% | 76.66% |
| Peer* | 71.06% | 70.29% | 75.50% | 76.76% | 73.40% |

*Ratios represent a national peer comparison

LENDING IN THE ASSESSMENT AREA

FNB’s record of lending within its assessment area meets the standards for satisfactory performance. The bank made the majority of its residential real estate loans within its assessment area. This Public Evaluation covers the bank’s lending activity of HMDA loans for

the period of January 1997 through December 2000. For the evaluation period, the bank originated 86% (464) of its loans and 83% (\$24,379,000) of the loan dollars within the assessment area.

| RECORD OF LENDING WITHIN ASSESSMENT AREA | | | | | | | | |
|-------------------------------------------------|------------------------|-----|--------|-----|-------------------------|-----|-------|-----|
| | Within Assessment Area | | | | Outside Assessment Area | | | |
| | # | % | \$ | % | # | % | \$ | % |
| 1997 HMDA Loans | 118 | 89% | 6,133 | 90% | 14 | 11% | 712 | 10% |
| 1998 HMDA Loans | 119 | 92% | 5,965 | 84% | 11 | 8% | 1,174 | 16% |
| 1999 HMDA Loans | 138 | 87% | 7,096 | 78% | 21 | 13% | 1,965 | 22% |
| 2000 HMDA Loans | 89 | 86% | 5,185 | 81% | 14 | 14% | 1,197 | 19% |
| Total HMDA Loans | 464 | 86% | 24,379 | 83% | 60 | 14% | 5,048 | 17% |

GEOGRAPHIC DISTRIBUTION OF LOANS

FNB's assessment area contains 2 low- and 8 moderate-income census tracts. The majority of the bank's assessment area tracts/BNAs are middle income. The geographic distribution of loans within the assessment area is satisfactory. As shown in the table below, the penetration in the low-income census tracts is minimal for home improvement loans and refinance loans. The lack of loan penetration in these tracts is mitigated given the distance to the closest branch and more readily accessible competitor institutions. It was noted that there are more than thirty financial institutions competing for loans in the area, with a minimal amount of loans being made. For instance, for the period beginning January 1, 1997 through December 21, 1999, only 46 home improvement loans were made in the low-income census tracts. Eleven different lenders in the area generated these loans. For the same time period, 400 home improvement loans were generated in the moderate-income census tracts by 39 financial competitors. For the years 1998 and 1999 FNB's lender market rank was 13th and 19th respectively.

| HMDA GEOGRAPHIC DISTRIBUTION* | | | | | | |
|--------------------------------------|---------------|-------------|------------------|-------------|--------------|-------------|
| | Home Purchase | | Home Improvement | | Refinance | |
| | % bank loans | % owner-occ | % bank loans | % owner-occ | % bank loans | % owner-occ |
| Low | .7% | 1.48% | 0% | 1.48% | 0% | 1.48% |
| Moderate | 4.96% | 16.88% | 5.77% | 16.88% | 1.35% | 16.88% |
| Middle | 83.97% | 67.67% | 86.54% | 67.67% | 90.54% | 67.67% |
| Upper | 10.31% | 13.98% | 7.69% | 13.98% | 8.11% | 13.98% |

*Based on 1999 HUD income and demographic data.

BORROWER DISTRIBUTION OF LOANS

This analysis reviews the bank's lending performance of home purchase, home improvement and refinance loans to borrowers, by income level, living within the bank's assessment area. Based on the data reviewed, the bank's overall lending performance to borrowers of different income

levels meets the standards for satisfactory performance. Performance with respect to specific mortgage products is reviewed in detail below.

| HMDA BORROWER DISTRIBUTION* | | | | | | |
|------------------------------------|----------------------|------------|-------------------------|------------|------------------|------------|
| | Home Purchase | | Home Improvement | | Refinance | |
| | % bank loans | % families | % bank loans | % families | % bank loans | % families |
| Low | 13.74% | 20.97% | 25% | 20.97% | 14.86% | 20.97% |
| Moderate | 24.05% | 19.15% | 26.92% | 19.15% | 26.35% | 20.97% |
| Middle | 22.90% | 25.80% | 19.23% | 25.80% | 21.62% | 25.80% |
| Upper | 37.02% | 34.07% | 25.00% | 34.07% | 36.49% | 34.07% |

*Based on 1999 HUD income and demographic data.

Home Purchase Loans

FNB's distribution of home purchase loans to borrowers of different income levels reflects the demographics of the bank's assessment area. Home purchase lending to low-income borrowers is slightly low, but is considered reasonable. Lending to moderate-income borrowers exceeds the percentage of moderate-income families and is considered good.

Home Improvement Loans

FNB's distribution of home improvement loans to borrowers of different income levels exceeds the demographics for both low-income and moderate-income borrowers for the bank's assessment areas. Home improvement lending represents the banks highest penetration of mortgage products to low-income and moderate-income borrowers within the assessment area.

Refinance Loans

FNB's distribution of residential refinance loans to borrowers of different income levels reflects the demographics of the bank's assessment area. Refinance lending to low-income borrowers is slightly low, but is considered reasonable. Lending to moderate-income borrowers exceeds the percentage of moderate-income families and is considered good.

Consumer Loan Analysis

A borrower distribution analysis could not be performed for consumer loans due to the lack of income data.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

An analysis of four years of public comment and consumer complaints in addition to an analysis of HMDA, Small Business and Small Farm lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with

the CRA evaluation this year.

RESPONSE TO COMPLAINTS

No complaints have been filed regarding the bank's CRA performance during this evaluation period.