



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 13, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Waverly
Charter Number 5635

107 North Market Street
Waverly, OH 45690

Office of the Comptroller of the Currency

West Lake Center
4555 Lake Forest Drive, Suite 610
Blue Ash, OH 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: Satisfactory

The First National Bank of Waverly (FNB) has a satisfactory record of meeting community credit needs consistent with its resources and capabilities. We based this assessment on the following lending conclusions:

- The bank makes a majority of its loans within the identified assessment area (AA).
- The distribution of loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The geographic distribution of sampled loan types reflects reasonable dispersion throughout the AA.
- The bank's average loan-to-deposit ratio since the previous CRA examination is reasonable.

SCOPE OF EXAMINATION

The purpose of the examination was to assess the bank's performance relative to the Community Reinvestment Act (CRA). The review period for this examination was January 1, 2010 through December 31, 2011. We used Small Bank CRA examination procedures, which focus on the bank's lending performance.

We determined that the bank's primary lending products during the review period were consumer installment loans (loans to individuals) and commercial loans including loans secured by commercial real estate. Our review focused on loans originated in these loan types during the evaluation period (January 1, 2010 through December 31, 2011).

LOANS ORIGINATED BETWEEN January 1, 2010 and December 31, 2011 By type				
Loan Type	Dollar Volume (in 000's)	Percent of Gross Loans	Number Volume	Percent of Number of Loans
One-to-Four Family Residential Real Estate Loans	\$14,586	26%	195	22%
Loans to Individuals	\$2,877	5%	431	47%
Commercial and Commercial Real Estate Loans	\$36,857	66%	249	27%
All other loans	\$1,671	3%	33	4%
TOTAL GROSS LOANS	\$55,991	100%	908	100%

We randomly selected and tested twenty consumer-installment loans and twenty commercial purpose loans originated during the review period as a representative sample of the bank's lending activities. We based our conclusions on these samples, with the borrower income penetration and geographic dispersion performance criteria weighted heavier.

DESCRIPTION OF INSTITUTION

The First National Bank of Waverly is a subsidiary of Central Ohio Bancorp. Central Ohio Bancorp is a holding company, which consists of FNB Waverly, Central Ohio Loan Services, and Central Ohio Financial Services. The bank operates six offices, with the main office located in Waverly, Ohio. The bank has two drive-thru facilities located at the main office and the Piketon office and four ATM facilities. All of the bank's branches are located in the middle-income census tracts. The bank offers retail and commercial products and services. Waverly is located in south-central Ohio about 15 miles south of Chillicothe and 65 miles south of Columbus. The bank's primary focus is retail banking, with the majority of its loans extended for residential real estate, commercial real estate, and consumer purposes. No legal or financial impediments exist that could restrict this bank's ability to meet the credit needs of its assessment area. The previous CRA examination conducted in December 2005 resulted in a rating of "Satisfactory".

As of December 31, 2011, the bank had \$153 million in total assets, \$135 million in total deposits, \$89 million in net loans, and \$14 million in Tier-One capital. According to the FDIC's June 30, 2011 Deposit Market Share Report for Pike County, the bank had a 58 percent market share and had the largest (out of a total of 5 financial institutions) market share in the county. Please refer to the CRA Public File for further information.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank operates in one assessment area, which includes all of Pike County, Ohio and consists of six census tracts. Pike County is not in a Metropolitan Statistical Area (MSA). The AA meets all regulatory requirements and does not arbitrarily exclude low- or moderate-income areas. The AA consists of four middle-income census tracts (9522, 9523, 9524, and 9525) and two moderate-income census tracts (9526 and 9527). Pike County has a population of 27,695 according to the 2000 U.S. Census Data.

The overall economic condition of Pike County is weak. The AA is primarily rural with manufacturing and state/local government as the major industries. Major employers in the AA include United States Enrichment Corp, local school systems, city/county government offices, and Wal-Mart Stores Inc. Competition in the AA is moderate and comes from credit unions, savings banks, and several branches of large state and national banks in the surrounding areas.

AA INCOME COMPOSITION AS A PERCENTAGE OF MEDIAN FAMILY INCOME					
	Low-Income Families	Moderate-Income Families	Middle-Income Families	Upper-Income Families	Families Below Poverty Level
2000 U.S. Census Data Updated for 2011	28.07%	20.71%	20.58%	30.64%	15.08%

The local economy is depressed and historically has a higher rate of unemployment and more low-income families than neighboring counties and Ohio, overall. A local major employer, Mills Pride, ceased operations in 2010 contributing to the high unemployment rate. Additionally, United States Enrichment Corp. is reportedly scaling back production in preparation of closing the plant in the near future, which will adversely affect unemployment and the local economy. Unemployment as of June 2012 is 13 percent for Pike county and 19 percent of households (15 percent of families) have incomes below the poverty level. Low-income families represent 28 percent of the county's families. The Housing and Urban Development's (HUD) estimate of the median family income fell to \$52,900 in 2011 from \$53,700 in 2010. Of the AA's 11,602 housing units, about 63 percent are owner-occupied and have a median housing value of \$68,361.

We had discussions with community leaders, which included the following community contacts: Pike County Commissioner, Executive Director for Pike County Chamber of Commerce, and Pike County Community Action Committee Business Development Program Director. We also spoke with bank personnel. Our discussions indicate that financial institutions are adequately meeting the community credit needs. Credit needs in the AA include affordable housing for low- and moderate- income families, small business financing and small consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

- FNB's performance under the lending test is satisfactory.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio of 65.18 percent as of June 30, 2012 is reasonable. The average LTD ratio over the 27 quarters since the last CRA examination (September 30, 2005 to June 30, 2012) of 67.27 percent is also reasonable. The bank's average quarterly LTD ratio ranged from a low of 58.23 percent at March 31, 2006 to a high of 74.08 percent at September 30, 2007. We compared FNB's current and 27-quarter average LTD ratios with a custom peer group consisting of banks of similar size and purpose (total assets less than \$250 million) in a five county area surrounding Pike County. Our analysis showed that FNB's LTD ratios were lower than the peer group average of 71.71 percent as of June 30, 2012 (75.74 percent 27-quarter average), for that peer group. We also compared FNB's LTD ratio to a peer group consisting of Ohio financial institutions with total assets less than \$250 million. This peer group's average

LTD ratio as of June 30, 2012 was 64.83 percent (72.10 percent 27-quarter average). Overall, FNB's LTD ratios are lower than peer, but remain satisfactory.

Lending in Assessment Area

- The bank made a substantial majority of its loans within the AA.

During the period of January 1, 2010 to December 31, 2011, the bank primarily made consumer installment loans and business purpose loans (primary loan types). Consumer installment loans account for 47 percent by number of the total loans originated during the period; business purpose loans (Commercial) account for 66 percent by dollar amount. We sampled twenty loans for each of the primary loan types originated during the review period. The following table details the bank's lending within the AA by number and dollar volume.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Installment	19	95%	1	5%	20	\$95	95%	\$2	5%	\$97
Commercial	14	70%	6	30%	20	\$3,194	58%	\$2,295	42%	\$5,489
Totals	33	83%	7	18%	40	\$3,289	59%	\$2,297	41%	\$5,586

Source: Loan Sample. Note: We excluded loans found outside the AA from analysis under the other lending performance criteria. We replaced the six commercial loans and one consumer loan found outside of the AA with loans made inside the AA.

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

- The bank's performance reflects reasonable penetration when compared to the AA's demographic make-up. The bank lends to borrowers of different income levels, especially low- and moderate-income borrowers and businesses of different sizes.

Our analysis of the consumer loan sample demonstrates that the bank makes a reasonable volume of its loans to low- and moderate-income borrowers. We determined the borrower's income level by comparing the borrower's income to the Weighted Average of Median Household Income of \$31,717 from the 2000 U.S. Census Data. FNB's lending to low-income borrowers is reasonable considering that 19 percent of the AA households have income below the poverty level. FNB's distribution of loans to moderate-income borrowers significantly exceeds the percentage of AA's moderate-income households.

Borrower Distribution of Consumer Installment Loans in the AA								
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 Loans	30%	15%	18%	30%	20%	10%	32%	45%

Source: Loan Sample; 2000 U.S. Census Data, updated for 2011.

FNB makes a majority of its commercial loans to small businesses. We gave less weight to the comparison with demographic information in our conclusion given the high level of businesses with unknown/unavailable income.

Borrower Distribution of Loans to Businesses made in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69%	3%	28%	100%
% of Bank Loans in AA by #	55%	45%	0%	100%
% of Bank Loans in AA by \$	20%	80%	0%	100%

Source: Loan Sample; 2000 U.S. Census Data, updated for 2011.

Overall, the results of our sample revealed a satisfactory responsiveness to lending to low- and moderate-income borrowers and businesses of different sizes. Pike County has the highest unemployment rate (13 percent) in Ohio and is higher than the state and national averages of 7.2 percent and 8.2 percent respectively. Taking these factors and the results of our analysis into consideration, the bank is providing credit services that meet the needs of the community.

Geographic Distribution of Loans

- This bank’s geographic distribution of loans reflects reasonable dispersion to all areas within the AA, including moderate-income areas.

Geographic Distribution of Consumer Loans in the AA								
Census Tract 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 Loans	N/A	N/A	34%	35%	66%	65%	N/A	N/A

Source: Loan Sample; 2000 U.S. Census data, updated for 2011.

The lending area has no low-income CTs. The bank’s consumer lending in moderate-income areas is reasonable and equals demographic comparators. The distribution of commercial loans is reasonable considering that the moderate-income areas have no organized communities (towns) and 42 percent of the area businesses are service related. Service related businesses are generally located in populated areas. Additionally, the bank does not have any branches in the moderate-income CTs.

Geographic Distribution of Commercial Loans to Businesses made in the AA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Businesses	0%	25%	75%	0%
% of Number of Loans	0%	15%	85%	0%

Source: Loan Sample; 2000 U.S. Census data, updated for 2011.

We did not identify any conspicuous gaps or areas of low penetration in the bank’s lending patterns.

Responses to Complaints

Neither bank management nor our office received any complaints regarding this bank’s CRA performance.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.