



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 21, 2010**

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

The Citizens National Bank of Chillicothe  
Charter Number 5634

33 W. Main Street  
Chillicothe, Ohio 45601

Office of the Comptroller of the Currency

Central Ohio Field Office  
325 Cramer Creek Court Suite 101  
Dublin, Ohio 43017-3577

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

The Citizens National Bank of Chillicothe (CNB) has a Satisfactory record of meeting community credit needs.

- CNB's lending to businesses of different sizes, including small businesses, and borrowers of different income levels, including low- and moderate-income borrowers, is reasonable when compared to the demographics of its assessment area (AA).
- CNB's current and 23-quarter average loan-to-deposit ratios are reasonable and commensurate with those exhibited by local peer banks.
- CNB originates a majority of its loans inside its AA.

**SCOPE OF EXAMINATION**

Our office conducted a full-scope Community Reinvestment Act (CRA) examination to assess CNB's record of meeting the credit needs of its entire community, including low- and moderate-income borrowers and areas. We used small bank CRA examination procedures and considered loan origination information from January 1, 2008 through year-to-date March 31, 2010 (evaluation period) to perform this evaluation.

The bank's performance in commercial and commercial real estate (business loans), residential real estate, and consumer lending is considered foremost in this CRA examination. These are the bank's primary lending products as determined through a review of the bank's loan originations for the evaluation period.

We sampled business, residential real estate, and consumer loans originated from January 1, 2008 through March 31, 2010. To evaluate the levels of lending in these categories, we selected a random sample of 20 loans per each type (60 in all) that were originated during the evaluation period. We used these files to perform the analysis of Lending in the Assessment Area (AA) and also used them to conduct the Borrower Distribution and Geographic Distribution analyses. For the Borrower Distribution and Geographic Distribution sample selection, we disregarded any loan not originated in CNB's AA. We then replaced the eliminated loans with loans originated within the AA to ensure the sample included 20 business loans, 20 residential real estate loans, and 20 consumer loans originated in the AA during the evaluation period.

**DESCRIPTION OF INSTITUTION**

CNB is a \$142 million (total assets as of December 31, 2009) full service community bank headquartered in Chillicothe, Ohio (Ross County seat), which is approximately 55 miles south of Columbus, Ohio. CNB operates six full-service offices in Ross and Fayette Counties. CNB is a subsidiary of a one-bank holding company, First Capital Bancshares, Inc., which is also headquartered in Chillicothe, Ohio. Since the last CRA examination (May 2004), CNB opened a branch in Washington Courthouse (Fayette County) and purchased a \$16 million state bank in

Clarksburg, Ohio (Clarksburg Commercial Savings Bank) that was doing business in Ross County.

Currently, there are no legal or economic impediments that exist that could restrict the institution's ability to serve the community's credit needs. CNB's prior CRA rating, as of May 17, 2004, was "Satisfactory Record of Meeting Community Credit Needs."

CNB's primary business strategy is to serve individual (residential and consumer lending) and small business customers with its offering of standard banking products and services. As of December 31, 2009, CNB reported gross loans of \$103 million, which are 71% of total assets. The following table illustrates CNB's loan origination activity during the evaluation period.

<b>Table 1 - Primary Loan Types</b>		
<b>Loans Originated from January 1, 2008 to March 31, 2010</b>		
<b>Loan Type</b>	<b>Percent by Number of Loans</b>	<b>Percent by Dollar of Loans</b>
Commercial/Commercial Real Estate (Business Loans)	33%	64%
Residential Real Estate Loans	13%	24%
Consumer Loans	47%	6%
Other Loans	7%	6%
<b>TOTAL GROSS LOANS</b>	<b>100%</b>	<b>100%</b>

Source: Internal bank reports, as of March 31, 2010.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

CNB has one AA that consists of all 24 census tracts in Ross and Fayette Counties. This AA is not in a metropolitan statistical area (non-MSA). The AA meets the requirements of the Community Reinvestment Act (consists of whole political subdivisions) and does not arbitrarily exclude any low- or moderate-income geographies.

CNB's AA is comprised of two moderate-, 20 middle-, and two upper-income census tracts. Based on the 2000 U.S. Census Data, the AA contains a population of 101,778 people. The AA contains 47,360 total housing units, and approximately 58% of these are owner-occupied. The median housing value is \$83,639. Nearly 12% of the households in the AA live below the poverty level. The 2009 updated median family income for the non-MSA areas of Ohio, as estimated by the Department of Housing and Urban Development (HUD), is \$53,800.

The overall economic condition of the AA has declined since the last CRA examination, which is consistent with the state-wide and national economic trends. Ross and Fayette Counties are fairly rural, with significant reliance on agriculture, small manufacturing, and individuals commuting to Columbus, Ohio for employment. Local small- to medium-size manufacturers and local governments are experiencing financial difficulty, resulting in increased unemployment, which is adversely affecting local service and retail businesses. State-wide unemployment updated through March 31, 2010 is 11.5%, which compares unfavorably to the national unemployment rate of 10.2%. Both Ross and Fayette Counties have higher than average unemployment at 13.3% and 13.1%, respectively. The largest employers in the AA include:

Adena Regional Health Systems, Chillicothe City Board of Education, Fayette County Memorial Hospital, and McKesson Corp.

Competition is strong within the AA and comes from both larger regional/national banks and other locally-owned community banks. As of June 30, 2009, CNB's deposit market share for Ross and Fayette Counties, at 11.20%, was the third highest among the 13 financial institutions doing business in those counties.

A community contact (a local government official) revealed that financial institutions are doing a satisfactory job in meeting the credit needs (home loan financing and loans to small businesses) of the entire community. The contact stated that low- and moderate-income borrowers do have opportunity to get financing for home loans from local banks. The contact also stated that several countywide programs are available to assist low- and moderate-income borrowers in obtaining loans (down payment assistance).

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

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

### **Loan-to-Deposit Ratio**

CNB's loan-to-deposit (LTD) ratio is reasonable and supports satisfactory performance. Its average LTD ratio over the last 23 quarters since the prior CRA examination (June 30, 2004 through December 31, 2009) of 84.05% is reasonable. CNB's performance is consistent with the 23 quarter LTD average ratio of 85.27% for similarly situated banks. Similarly situated refers to the five other financial institutions of similar size and purpose doing business within the same and contiguous counties.

### **Lending in Assessment Area**

A majority of CNB's lending occurs inside its AA and supports satisfactory performance. As previously noted, the bank's primary loan types consist of business loans, residential real estate loans, and consumer loans. We sampled 20 loans from each of these primary loan types during the evaluation period. Table 2 details the bank's lending within the AA by number and dollar volume. The table indicates that a majority of loans in our sample were made inside the bank's AA.

<b>Table 2 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	16	80.00%	4	20.00%	100%	1,358,127	51.52%	1,277,781	48.48%	100%
Residential RE	20	100.00%	0	0.00%	100%	2,393,185	100.00%	0	100.00%	100%
Consumer	16	80.00%	4	20.00%	100%	112,308	66.68%	56,121	33.32%	100%
Totals	52	86.67%	8	13.34%	100%	3,863,620	74.34%	1,333,902	25.66%	100%

Source: Loan sample.

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

CNB's lending to businesses of different sizes and borrowers of different levels reflects reasonable penetration to small businesses and low- and moderate-income borrowers.

The distribution of business loans reflects reasonable penetration among business of different sizes, including small businesses (those with annual revenues of \$1 million or less). Tables 3 and 4 below reflect this reasonable penetration.

<b>Table 3 - Borrower Distribution of Loans to Businesses the Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses (2009)	75.37%	3.43%	21.20%	100%
% of AA Businesses (2008)	57.23%	3.53%	39.24%	100%
% of Bank Loans in AA by #	75.00%	25.00%	0.00%	100%
% of Bank Loans in AA by \$	62.68%	37.32%	0.00%	100%

Source: Loan sample; 2008 and 2009 Dun & Bradstreet data.

Due to the significant percentage of businesses that did not report revenue information (identified as “unavailable/unknown” in the above table), we performed an additional analysis of CNB's business loan portfolio using loan size as a proxy for revenue. We used the CRA regulation's definition of a “small business loan” to analyze CNB's business loan distribution by loan size. A substantial majority of CNB's business loans were small business loans (original loan amount of \$1,000,000 or less). As of March 31, 2010, small business loans represented 97.63% (based on the number of loans) and 82.51% (based on the dollar amount of loans) of all CNB's business loans. Given CNB's size and business strategy, this distribution provides further support for CNB's satisfactory performance in lending to businesses of different sizes.

Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	154	52.20%	5,592,000	12.16%
\$100,001 - \$250,000	62	21.02%	7,816,000	17.00%
\$250,001 - \$1,000,000	72	24.41%	24,522,000	53.35%
\$1,000,001 and over	7	2.37%	8,040,000	17.49%
Total	295	100.00%	45,970,000	100.00%

Source: Bank's March 31, 2010 Report of Income and Condition (Call Report); Internal bank reports.

The distribution of residential real estate lending reflects reasonable penetration among individuals of different incomes including low- and moderate-income borrowers. The residential real estate loan sample reflects penetration in all income categories. Lending to low-income borrowers is lower than the percentage of low-income families within the AA, while lending to moderate-income borrowers exceeds the proportion of moderate-income families in the AA. A factor contributing to the lower penetration to low-income borrowers is that 8.65% of families in this AA are living below the poverty level and may not meet the credit standards for home mortgages. Refer to Table 5 below for additional details on the bank's residential real estate lending distribution.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Loan	18.47%	10.00%	19.36%	30.00%	23.76%	30.00%	38.41	30.00%

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

The distribution of consumer lending reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers. Lending to moderate-income borrowers significantly exceeds the percentage of low- and moderate-income households within the AA, while lending to low-income borrowers was lower than the percentage of low-income households in the AA. A contributing factor to the lower penetration for low-income households is that 11.69% of the households in this AA live below poverty level and may not meet the credit standards for the bank's consumer lending. Refer to Table 6 below for additional details on the bank's consumer lending distribution.

<b>Table 6 – Borrower Distribution of Consumer Loans in the Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	23.25%	20.00%	16.85%	30.00%	20.89%	30.00%	39.01	20.00%

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

### Geographic Distribution of Loans

The geographic distribution of loans throughout the AA is reasonable. Our review reflected lending in all categories of income level tracts, including moderate-income geographies. While CNB’s residential real estate lending does not reflect any penetration in moderate-income areas, its lending in moderate-income tracts for business and consumer loan products is at least reasonable.

The geographic distribution of business loans reflects excellent penetration in moderate-income tracts. Based on our loan sample, business loans in moderate-income tracts exceeded the percentages of business in those tracts. Refer to Table 7 below for additional details on the geographic distribution of CNB’s business loans.

<b>Table 7 – Geographic Distribution of Loans to Businesses in the Assessment Area</b>						
Census Tract Income Level	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
Business Loans	6.69%	10.00%	88.69	90.00%	4.62	0.00%

Source: Loan sample; Dun & Bradstreet data.

The geographic distribution of residential real estate loans reflects below average lending in moderate-income tracts. No loans in our sample were originated in moderate-income tracts. A contributing factor for this low penetration is the location of the moderate-income census tract in Fayette County. This tract is on the opposite side of Washington Courthouse from CNB’s location and several other financial institutions are better able to serve that tract with closer locations. For all residential real estate lending since January 1, 2008, CNB originated 2.5% of total residential real estate loans in moderate-income tracts. This information was obtained through review of a management report of originated residential real estate loans by address.

Refer to Table 8 below for additional details on the bank’s residential real estate distribution.

<b>Table 8 - Geographic Distribution of Residential Real Estate Loans in the Assessment Area</b>						
Census Tract Income Level	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
Residential Real Estate Loans	6.13%	0.00%	87.01%	85.00%	6.86%	15.00%

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

The geographic distribution of consumer lending reflects generally reasonable penetration to households in moderate-income tracts. CNB’s lending penetration is slightly less than, but approximates, the percentage of moderate-income households. A contributing factor for this level of penetration is the location of the moderate-income census tract in Fayette County. This tract is on the opposite side of Washington Courthouse from CNB’s location and several other financial institutions are better able to serve that tract with closer locations. Refer to Table 9 below for additional details on the bank’s consumer loan distributions.

<b>Table 9 - Geographic Distribution of Consumer Loans in the Assessment Area</b>						
Census Tract Income Level	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
Consumer Loans	8.20	5.00%	85.34	90.00%	6.46	5.00%

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

**Responses to Complaints**

Neither our office nor CNB has received any complaints related to the bank’s CRA performance during the 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.