

## **Public Disclosure**

December 8, 1998

### **Community Reinvestment Act Performance Evaluation**

**The First National Bank of Zanesville  
Charter Number 164  
422 - 428 Main Street**

**Zanesville, Ohio 43071**

**Office of the Comptroller of the Currency  
Central Ohio Field Office  
325 Cramer Creek Court, Suite 202  
Dublin, OH 43017**

**NOTE: 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.**

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## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout the Performance Evaluation. The definitions are intended to give the reader a general understanding of the terms, not a strict legal definition.

**Metropolitan Statistical Area (MSA)** - An area defined by the United States Office of Management and Budget (OMB). MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Community Reinvestment Act (CRA)** - The statute that requires banking regulatory agencies to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consolidated Metropolitan Statistical Area (CMSA)** - An area may be defined by the OMB as a CMSA if several component areas (MSAs) can be identified within the entire area by meeting specified statistical criteria, and local opinion indicates there is support for the component areas.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, income of the applicant(s), a loan amount requested, and its disposition.

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the updated median income determined by the Department of Housing and Urban Development (HUD) annually used to determine the income level category of individuals.

**C Low Income** - Income levels that are less than 50 percent of the MFI.

**C Moderate Income** - Income levels that are at least 50 percent and less than 80 percent of the MFI.

**C Middle Income** - Income levels that are at least 80 percent and less than 120 percent of the MFI.

**C Upper Income** - Income levels that are 120 percent or more of the MFI.

**Small Business or Small Farm** - A business or farm with gross annual revenues of less than \$1 million.

**Small Business Loan** - A loan with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

**Small Farm Loan** - A loan with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

**Regulatory Capital** - Bank capital as defined by regulation. In this evaluation, we use Tier I capital as

a measure. Tier I capital consists of paid in stock, surplus, and retained earnings.

## **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 CRA performance of **The First National Bank of Zanesville** (FNBZ) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of December 8, 1998. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

## **INSTITUTION'S RATINGS**

**Institution's CRA Rating:** This institution is rated "Satisfactory Record of Meeting Community Credit Needs." This rating is supported by the following:

- C FNBZ has a high percentage of loans within its defined assessment areas;
- C FNBZ does an adequate job in lending to low- and moderate-income borrowers and in lending within low- and moderate-income geographies;
- C FNBZ has adequately responded to community credit needs by designing flexible lending products;
- C FNBZ has an adequate level of qualified community development investments and grants, rarely in a leadership position, particularly those not routinely provided by private investors;
- C FNBZ's delivery systems are reasonably accessible to essentially all portions of the bank's assessment areas; and,
- C FNBZ has adequately responded to its communities through community development services.

The prior examination, dated August 31, 1995 and performed in accordance with the CRA regulation in effect prior to July 1, 1995, resulted in an Outstanding CRA rating.

The following table indicates the performance level of **The First National Bank of Zanesville** with respect to the lending, investment, and service tests.

Performance Levels	The First National Bank of Zanesville Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## DESCRIPTION OF THE INSTITUTION

The First National Bank of Zanesville (FNBZ) is a full-service, intrastate commercial bank with its main office in Zanesville, Muskingum County, Ohio. FNBZ reported \$493 million in total assets as of March 31, 1998 and serves all or portions of two counties within the State of Ohio through a network of 11 office locations. FNBZ also operates five automated teller machines (ATMs) and two cash-only dispensing machines located at various sites throughout the bank's assessment areas. Seven loan production offices (LPOs), located in Copley Township, Ohio, Chillicothe, Ohio, Cincinnati, Ohio, Cleveland, Ohio, Bellbrook, Ohio, and Sterling Heights, Michigan, mainly provide commercial loan products. The Chillicothe, OH LPO; however, provides residential mortgage loans to its customers. All of these mortgage loans are sold to investors in the secondary market.

FNBZ is wholly owned by BancFirst Ohio Corporation, a \$1.2 billion bank holding company based in Zanesville, Muskingum County, Ohio. The bank holding company, prior to 1995, held only one bank subsidiary, FNBZ. In 1995, The Bellbrook Community Bank (located in Bellbrook, Greene County, Ohio) was purchased by BancFirst and in 1996, County Savings Bank (located in Columbus, Franklin County, Ohio) was purchased by the holding company. BancFirst's acquisition of these two institutions resulted in FNBZ closing two of its offices, one in Heath, Licking County, Ohio and another in Newark, Licking County, Ohio. Both were closed in May 1997 as a result of an overlap in territory when the County Savings Bank was purchased. In both instances, all accounts of the former FNBZ office were transferred to the surviving County Savings Bank branch. Low- and moderate-income areas were not arbitrarily excluded during changes in its assessment areas.

In May 1998, the holding company merged The Bellbrook Community Bank and County Savings Bank subsidiaries into the FNBZ charter. The effect of this merger allowed FNBZ to increase its presence throughout the Central Ohio region. Subsequent to the merger, all FNBZ offices located within Muskingum County operate under the name FNBZ and all locations outside of Muskingum County operate under the name Bank First National, a Division of the FNBZ.

FNBZ’s goals include continued lending efforts that target small business and commercial lending complemented by focused consumer lending. The institution’s core lending is derived from the Muskingum County area as this is where the institution is headquartered. In 1994, FNBZ established a branch inside of a major grocery store in Reynoldsburg, Franklin County, Ohio. This branch has not been able to penetrate the lending market in this area due to its extremely small size and due to the extreme competition it faces in the Columbus, Franklin County, Ohio area. This branch, with estimated deposits of \$1,503,000 as of March 31, 1998, accounts for only 0.40 percent of FNBZ’s total deposits. Table 1 below displays the institution’s share of deposits within the markets it operated for the period under evaluation:

<b>Table 1 Breakdown of Deposits by Market as of March 31, 1998</b>		
<b>Market Area:</b>	<b>Dollar Volume of Deposits*</b>	<b>Percent of Total Volume</b>
<b>Muskingum County</b>	\$374,342	99.6%
<b>Columbus MSA</b>	\$1,503	0.4%
<b>Total</b>		

Source: Federal Deposit Insurance Corporation; Consolidated Report of Condition as of March 31, 1998.

\* - Breakdown between Muskingum County and Columbus MSA estimated using percentage allocations from June 30, 1998.

Currently, there exists no impediments that would prevent FNBZ from meeting its community reinvestment responsibilities. As of March 31, 1998, FNBZ reported total equity capital of \$38,123,000, net income of \$1,707,000, a net loans and leases-to-deposits ratio of 74 percent, and total loans of \$279,924,000. Table 2 below shows the breakdown of FNBZ’s loan portfolio as of March 31, 1998:

Table 2 Loan Portfolio Distribution As of March 31, 1998		
Loan Types:	Dollars (in 000s)	Percent of Total
Real Estate Mortgage	\$111,480	40%
Commercial Real Estate	\$69,981	25%
Commercial and Industrial	\$50,586	18%
Consumer	\$28,652	10%
Construction and Development	\$10,615	4%
Obligations of States and Political Subdivisions	\$3,066	1%
Other	\$3,313	1%
Agriculture	\$1,580	(c)
Agriculture - Real Estate	\$651	(c)
<b>Total</b>	<b>\$279,924</b>	<b>100%</b>

Source: Consolidated Report of Condition as of March 31, 1998.

(c) - Represents less than 1% of total loans.

### Competition

Prior to the May 1998 merger of The Bellbrook Community Bank and County Savings Bank into the FNBZ charter, FNBZ operated almost exclusively throughout Muskingum County. As of June 30, 1998, six commercial banks and one savings institution, operating a total of 28 offices, had a presence in Muskingum County. Only three (including FNBZ) of the seven institutions maintained headquarters in Muskingum County. FNBZ competes against all six of these institutions; however, it views the three institutions headquartered in Muskingum County as its primary competitors.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNBZ has undergone many changes to its structure since 1995 with the most recent being the May 1998 merger of two affiliates into its charter. Given this evaluation covers FNBZ's performance from January 1, 1996 through December 8, 1998, only FNBZ's performance prior to the mergers will be evaluated. This is appropriate since all but six months of activity within the time period covered by this evaluation is from the pre-merger period. Refer to the *Appendix* (page A-2) for a brief outline of FNBZ's most current assessment area (post-merger) as currently reflected in its public file.

FNBZ has two assessment areas which will be analyzed for the time period under review. Due to the opening and closing of branches and merger activity, both of which caused bank management to redefine its assessment areas, the areas for 1998 and 1997 differ from those for 1996. Table 3 below shows the assessment areas used to analyze the institution's 1996 performance and Table 4 shows the

assessment areas used to analyze 1997 and 1998 performance. Within each table, only select geographies of Franklin and Guernsey Counties comprise the assessment areas. This is because FNBZ does not have offices in all portions of the county and the presence of many other large financial institutions which serve the same area.

Table 3 Defined Assessment Areas for the Time Period January 1, 1996 through December 31, 1996				
Assessment Areas	Number of Geographies	Geographies		
<b>Assessment Areas for 1996 Analysis</b>				
<b>Assessment Area #1</b>  Muskingum County, OH (Non-metropolitan areas)	19	<b>Low Income:</b> 9821.00  <b>Moderate Income:</b> 9814.00      9820.00  <b>Middle Income:</b> 9810.009811.00      9812.00      9813.00  9815.00 9817.00      9818.00      9819.00      9822.00      9823.00 9824.00      9825.00      9826.00      9827.00      9828.00  <b>Upper Income:</b> 9816.00		
<b>Assessment Area #2</b>  Licking County, OH (Columbus, OH MSA 1840)	31	<b>Low Income:</b> 7501.00  <b>Moderate Income:</b> 7504.00      7507.00      7510.00      7513.00      7519.00 7522.00      7525.00      7583.00  <b>Middle Income:</b> 7516.00      7528.00      7531.00      7533.00      7536.00 7541.00      7544.00      7547.00      7550.00      7553.00 7556.00      7559.00      7565.00      7568.00      7571.00 7574.00      7580.00      7586.00      7589.00  <b>Upper Income:</b> 7539.00      7562.00      7577.00		

Source: Bank Internal Records; 1996 FFIEC CRA Disclosure Statement.

As mentioned previously, the holding company's 1996 purchase of County Savings Bank in Columbus, Franklin County, Ohio resulted in an overlap in territory and thus, caused FNBZ to close its Licking County, Ohio office. This, along with bank management's analysis to determine where the bank was originating a majority of its loans and the 1996 opening of a branch in a major grocery store in Reynoldsburg, Franklin County, Ohio resulted in the revised assessment areas to be used for the period

1997 through 1998. These revised assessment areas are noted in Table 4 below:

Table 4 Defined Assessment Areas for the Time Period January 1, 1997 through October 21, 1998					
Assessment Areas	Number of Geographies	Geographies			
<b>Assessment Areas for 1998 and 1997 Analysis</b>					
<p><b>Assessment Area #1</b> Muskingum/Guernsey Counties, OH (Non-metropolitan Areas)</p>	26	<p><b>Low Income:</b> 9821.00</p> <p><b>Moderate Income:</b> 9772.00    9773.00    9776.00    9779.00    9814.00 9820.00</p> <p><b>Middle Income:</b> 9774.00    9775.00    9780.00    9810.00    9811.00 9812.00    9813.00    9815.00    9817.00    9818.00 9819.00    9822.00    9823.00    9824.00    9825.00 9826.00    9827.00    9828.00</p> <p><b>Upper Income:</b> 9816.00</p>			
<p><b>Assessment Area #2</b> Franklin County, OH (Columbus, OH MSA 1840)</p>	9	<p><b>Middle Income:</b> 93.71    93.81    93.82    93.83    93.84 93.86</p> <p><b>Upper Income:</b> 93.62    93.85    93.90</p>			

Source: Bank Internal Records; 1997 FFIEC CRA Disclosure Statement.

The 1990 U.S. Census Median Family Incomes (MFI), updated for 1998 by HUD, for the Columbus, Ohio MSA and the non-metropolitan areas of Ohio are \$50,600 and \$40,500, respectively. Tables 5, 6, 7, and 8 provide additional information about FNBZ's assessment areas which will be used to support conclusions throughout this performance evaluation.

<p><b>Table 5</b> Demographic Information of the Assessment Areas</p>
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Income Level of Geography	Total Population	Percent of Total	Number of Geographies	Percent of Total	Number of Owner Occupied Housing Units	Percent of Housing Units
<b>Assessment Areas for 1998 and 1997</b>						
Low Income	4,254	3%	1	3%	860	2%
Moderate Income	24,972	17%	6	17%	6,190	16%
Middle Income	97,738	67%	24	69%	25,344	67%
Upper Income	18,186	13%	4	11%	5,415	14%
<b>Total</b>	<b>145,150</b>	<b>100%</b>	<b>35</b>	<b>100%</b>	<b>37,809</b>	<b>*99%</b>
<b>Assessment Areas for 1996</b>						
Low Income	5,258	3%	2	4%	956	2%
Moderate Income	38,125	18%	10	20%	8,738	15%
Middle Income	148,127	70%	34	68%	41,345	73%
Upper Income	18,858	9%	4	8%	5,436	10%
<b>Total</b>	<b>210,368</b>	<b>100%</b>	<b>50</b>	<b>100%</b>	<b>56,475</b>	<b>100%</b>

Source: 1990 Census Data, U.S. Bureau of the Census.

\* - Does not equal 100% due to rounding.

<b>Table 6 Family Income Information</b>		
Income as a Percent of HUD* MSA Median Family Income	Number of Families	Percent of Total
<b>Assessment Areas for 1998 and 1997</b>		
Low Income	8,104	20%
Moderate Income	7,153	18%
Middle Income	10,136	25%
Upper Income	14,404	36%
<b>Total</b>	<b>39,797</b>	<b>**99%</b>
<b>Assessment Areas for 1996</b>		
Low Income	12,576	21%
Moderate Income	11,096	19%
Middle Income	15,398	26%
Upper Income	19,607	33%
<b>Total</b>	<b>58,677</b>	<b>**99%</b>

Source: 1990 Census Data, U.S. Bureau of the Census.

\* HUD-U.S. Department of Housing and Urban Development; \*\*Does not equal 100% due to rounding.

Table 7 Business and Farms by Annual Revenue Size			
Type	Total Number	Sales Revenue	
		Percent with Less than \$1 Million	Percent with \$1 Million or Greater
<b>Assessment Areas for 1998 and 1997</b>			
Business	4,781	92%	8%
Farm	109	97%	3%
<b>Assessment Areas for 1996</b>			
Business	6,618	91%	9%
Farm	229	97%	3%

Source: 1990 Census Data, U.S. Bureau of the Census.

Table 8 Business and Farm Information				
Income Level of Geography	Businesses		Farms	
	Number of Businesses	Percent of Total	Number of Farms	Percent of Total
<b>Assessment Areas for 1998 and 1997</b>				
Low Income	141	3%	1	1%
Moderate Income	988	21%	15	14%
Middle Income	2,935	61%	80	73%
Upper Income	717	15%	13	12%
<b>Total</b>	<b>4,781</b>	<b>100%</b>	<b>109</b>	<b>100%</b>
<b>Assessment Areas for 1996</b>				
Low Income	564	8%	1	1%
Moderate Income	1,027	16%	24	10%
Middle Income	4,414	67%	186	81%
Upper Income	613	9%	18	8%
<b>Total</b>	<b>6,618</b>	<b>100%</b>	<b>229</b>	<b>100%</b>

Source: 1990 Census Data, U.S. Bureau of the Census

FNBZ's 1998 and 1997 assessment areas are comprised of three counties (or portions thereof) and the 1996 assessment areas consist of two counties (or portions thereof). Below is a description of each county that FNBZ claimed as part of its assessment areas for the time period under review:

Muskingum County (included in 1998, 1997, and 1996 assessment areas)

Muskingum County is located in the east-central portion of the State of Ohio. Interstate Highway 70, U.S. Routes 22 and 40 (National Road), and State Routes 16, 208, and 313 cross the county east and west, and State Routes 60, 93, 146, 555, and 666 run north and south. The Licking and Muskingum Rivers flow through the County. The manufacturing industry has employed the most workers and has been the fastest growing industry within the county. Zanesville is the largest city in the county and serves as the county seat. Major employers include Armco Steel, United Technologies, and Anchor Glass. Homegrown companies, such as The Longaberger Company and 5 B's, Inc. have also become important parts of the community. The 1990 average median housing value in the county was \$46,773 and the average monthly rental rate for the same time period was \$300. Housing units occupied totaled 93 percent and vacant housing was 7 percent. The population of Muskingum County, according to 1990 U.S. Census Data, was 82,068. Five of the largest cities in the county are Zanesville, New Concord, South Zanesville, Dresden, and Frazeyburg. At December 31, 1998, the unemployment rate in Muskingum County was 7.0 percent, almost double that of the State of Ohio's 3.8 percent. In addition to FNBZ, two other financial institutions, Century National Bank and First Federal Savings of Eastern Ohio are headquartered in the county. Other institutions serving the county with the presence of branches include Bank One, N.A., The Citizens National Bank of McConnelsville, The Community Bank, and National City Bank. FNBZ's presence is the strongest in Muskingum County as this is where the bank maintains its headquarters and has ten of its 11 banking facilities.

Guernsey County (included in 1998 and 1997 assessment areas)

Guernsey County is located in the east-central part of the State of Ohio in the "Appalachian Region." Interstate Highway 70, U.S. Routes 22 and 40 (National Road), and State Routes 265, and 313 cross the county east and west, and Interstate Highway 77, and State Routes 285 and 513 run north and south. The services industry has employed the most workers in the county. This industry has also been the fastest growing industry in the county. The total population of Guernsey County, according to 1990 U.S. Census Statistics, was 39,024. Five of the largest cities within the county are Cambridge, Byesville, Quaker City, Senecaville, and Pleasant City. At December 31, 1998, the unemployment rate of Guernsey County was 8.0 percent, over double that of the State of Ohio's 3.8 percent. Major employers in the area include Ametek/March Electric, Cambridge City Board of Education, and Colgate Palmolive Company. The 1990 average median housing value for the area was \$40,009 and the average monthly rental rate for this same time period was \$274. Occupied housing units totaled 89 percent and vacant units were reported at 11 percent. As of June 30, 1998, Guernsey County was the headquarters for two savings institutions, Cambridge Savings Bank and The Guernsey Bank, F.S.B. Three commercial banks, National City Bank, Star Bank, N.A., and Wheeling National Bank, all have branches within Guernsey County. FNBZ does not have a physical presence in Guernsey County. A branch in Muskingum County that borders Guernsey County serves a portion of the Guernsey County area.

Franklin County (included in 1998 and 1997 assessment areas)

Franklin County is located in the central portion of Ohio, and is the home of the State's Capital. Interstate Highway 70 and U.S. Route 40 (National Road) cross the county east and west, and Interstate 71 and U.S. Routes 23 and 33 run north and south. The total population of Franklin County, as of the 1990 U.S. Census, was 961,437. The county seat, Columbus, is the largest city in Franklin County with a 1990 U.S. Census population of 632,305. Four of the next largest cities within the county include Upper Arlington, Westerville, Gahanna, and Reynoldsburg. At December 31, 1998, the unemployment rate for Franklin County was 2.1 percent, which compares favorably to that of the State of Ohio's 3.8 percent. The Services Industry has employed the most workers and the Retail Industry has been the fastest growing. The 1990 average median housing value for the area was \$75,078 and the average monthly rental rate for this same time period was \$424. Occupied housing units totaled 93 percent and vacant units were reported at 7 percent. As of June 30, 1998, Franklin County served as the headquarters for ten financial institutions. Sixteen other financial institutions are also represented through a network of branches throughout the county. FNBZ's presence in this county has been minimal as it has only one branch that is located in a major supermarket.

#### Licking County (included in 1996 assessment area)

Licking County is located in the central part of Ohio. Interstate Highway 70, U.S. Route 40 (National Road), and State Routes 16 and 161 cross the county east and west, and U.S. Route 62 and State Routes 13, 30, 37, 79, 586, and 661 run north and south. The 1990 U.S. Census total population of the county was 128,300. Five of the largest cities within the county are Newark, Heath, Granville, Johnstown, and Pataskala. At December 31, 1998, the unemployment rate of Licking County was 3.5 percent, slightly below the State of Ohio's 3.8 percent. The Wholesale and Retail Trade industry has employed the most workers. The Construction Industry, on the other hand, has been the fastest growing industry. The 1990 average median housing value for the area was \$60,570 and the average monthly rental rate for this same time period was \$360. Occupied housing units were at 94 percent while vacant units totaled 6 percent. As of June 30, 1998, Licking County served as headquarters for five financial institutions. Six other financial institutions also serve Licking County through a series of branches. FNBZ's presence in this county during 1996 was modest.

## **COMMUNITY NEEDS**

We spoke with two different community groups during this examination in order to determine the credit needs of the communities FNBZ serves. These groups represented grassroots community groups and community-based development intermediaries whose missions include affordable housing. In addition, we reviewed a community contact form which was prepared by another regulatory agency which covered the FNBZ's general geographic area. This was a local governmental group. All three groups stressed the need for affordable housing. In addition, one of the groups stressed the need to educate the community on the different types of products available to ensure customers qualify for the products which most fit their needs. One group mentioned two problems applicants encounter are high down payments and private mortgage insurance (PMI). Another group voiced a concern that the equity available in houses currently is not enough to borrow against in order to make needed repairs to

housing located in low- and moderate-income areas.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

FNBZ's performance under the lending test is Low Satisfactory. The following reasons lend support to this conclusion:

- C FNBZ has displayed an adequate response to the needs of its communities;
- C FNBZ has originated a high percentage of loans within its defined assessment areas;
- C FNBZ does an adequate job in lending to low- and moderate-income borrowers and in lending to borrowers in low- and moderate-income geographies;
- C While data integrity issues prevent us from analyzing FNBZ's filed CRA Disclosure Statement data for 1997 and 1996, we were able to draw some conclusions about its small business and small farm lending from a small sample of these loan types (32 small loans to businesses and 5 small loans to farms from 1997). Conclusions drawn from sampled data, along with various reports obtained internally, revealed that FNBZ's lending to small businesses is adequate; and,
- C FNBZ makes use of innovative and/or flexible lending practices in serving assessment area credit needs.

#### **Lending Activity**

FNBZ's loan portfolio growth has been modest at best from 1996 to 1997. The portfolio, as a whole, grew a total of 2 percent from December 31, 1996 to December 31, 1997. Over this same time period, growth within individual loan types were as follows: commercial loans increased 48 percent, real estate loans increased less than one percent, loans to individuals decreased 27 percent, and agriculture loans decreased 12 percent.

FNBZ has displayed an adequate level of responsiveness to the credit needs of its communities. Table 9 supports this conclusion by revealing the high percentage of loans originated within its assessment areas. As indicated in Table 9 below, the percentage of mortgage, small business, and small farm loans originated within the assessment areas was 84 percent, 72 percent, and 100 percent, respectively.

#### Data Integrity

A routine part of our examination includes a data integrity verification of HMDA and small business and small farm data. This review is performed to determine if the data filed by the institution can be relied upon to support conclusions with respect to the bank's lending performance. While we determined that filed HMDA data was reliable, small business and small farm data contained material errors.

Therefore, we sampled 1997 data and drew conclusions from 32 small business loans and 5 small farm loans. Given the limited volume of this sample, the conclusions reached with respect to small business

and small farm lending were not given the weight normally assigned when arriving at an overall rating for the lending test.

<b>Table 9</b> <b>Loans Originated by Loan Type</b> <b>January 1, 1996 through October 21, 1998</b>						
Loan Type	Total Loans Originated		Loans Originated within the Assessment Areas			
	Number	Dollars (in 000s)	Number	Percent of Number Originated	Dollars (in 000s)	Percent of Dollars Originated
Mortgage	1,363	\$88,647	1,141	84%	\$76,144	86%
Small Business*	32	\$1,875	23	72%	\$1,048	56%
Small Farm*	5	\$96	5	100%	\$96	100%
Total	1,400	\$90,618	1,169	84%	\$77,288	85%

Source: Federal Financial Institutions Examination Council (FFIEC) 1997 and 1996 Filed Home Mortgage Disclosure Act (HMDA) Data and 1998 Bank Internal year-to-date Home Mortgage Disclosure Act (HMDA) Data; FFIEC 1997 Filed CRA Disclosure Statement Data.

\* - A verification of FNBZ's 1997 CRA Disclosure Statement Data revealed a number of material errors. It was determined that these inaccuracies were the result of systemic breakdowns in the collection of this data. Therefore, these numbers and percentages were arrived at through a sample of 32 small loans to business and 5 small loans to farms.

### Home Mortgage Lending

FNBZ is an active lender of home mortgage loans. It offers a variety of products, each designed to meet the needs of individual borrowers. Some of these programs will be discussed in more detail later in this report under the section Innovative and/or Flexible Lending Programs.

In 1997, a total of 225 lenders had originated at least one home mortgage loan within FNBZ's defined assessment areas. With respect to mortgage loans originated to borrowers in low- and moderate-income tracts, FNBZ ranked second in low-income tracts by capturing 11 percent of the market. As for moderate-income tracts, FNBZ also ranked second by capturing 8 percent of the market. When looking at loans to low- and moderate-income borrowers, FNBZ ranked first on lending to low-income borrowers by capturing 14 percent of the market and ranked second in lending to moderate-income borrowers by capturing 8 percent of the market. Table 10 shows that out of 225 lenders, FNBZ's market share and ranking are within the top three for most products in lending in low- and moderate-income areas as well as lending to low- and moderate-income borrowers.

<b>Table 10</b> <b>FNBZ's Ranking and Comparison to 225 Lenders with Loans in the Bank's Assessment Areas</b> <b>Mortgage Loans Originated in 1997</b>	
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Category	Number of FNBZ's Loans	FNBZ's Percent of Market Share	Ranking in Market Share
<b>Total Mortgage Loans</b>	409	11%	1
<b>Total Mortgage Loans in Low- and Moderate-Income Tracts</b>	42	9%	2
<b>Total Mortgage Loans in Low-Income Tracts</b>	7	11%	2
Home Purchase in Low-Income Tracts	5	33%	1
Home Improvement in Low-Income Tracts	1	11%	3
Refinance in Low-Income Tracts	1	3%	8
<b>Total Mortgage loans in Moderate-Income Tracts</b>	35	8%	2
Home Purchase in Moderate-Income Tracts	15	13%	2
Home Improvement in Moderate-Income Tracts	8	8%	3
Refinance in Moderate-Income Tracts	10	5%	2
<b>Total Mortgage Loans to Low- and Moderate-Income Borrowers</b>	103	10%	2
<b>Total Mortgage Loans to Low-Income Borrowers</b>	48	14%	1
Home Purchase to Low-Income Borrowers	13	12%	2
Home Improvement to Low-Income Borrowers	24	28%	2
Refinance to Low-Income Borrowers	11	7%	3
<b>Total Mortgage Loans to Moderate-Income Borrowers</b>	55	8%	2
Home Purchase to Moderate-Income Borrowers	22	7%	3
Home Improvement to Moderate-Income Borrowers	16	14%	2
Refinance to Moderate-Income Borrowers	17	6%	2

Source: FFIEC, 1997 HMDA Aggregate Data.

### Small Business and Small Farm Lending

As mentioned previously, data integrity issues prevented us from using FNBZ's filed small business and small farm data in assessing its performance in lending to small businesses and small farms. A small sample of these loan types from 1997 revealed that FNBZ tends to be an active small business lender.

FNBZ is not an active agriculture lender. Even though our small sample taken from 1997 filed data included only five of this loan type, FNBZ initially only reported a total of fourteen in its CRA Disclosure Data. This is reasonable as Table 7 on page 8 indicates FNBZ's assessment areas have only a small number of farms (109 for 1997 and 1998 and 229 for 1996).

### **Geographic Distribution of Loans**

FNBZ's geographic distribution of loans reflects adequate penetration throughout its defined assessment

areas. This conclusion is supported by the fact that lending in low- and moderate-income geographies is just slightly below the assessment area characteristics of owner-occupied units. In addition, FNBZ penetrated an adequate portion of its geographies.

### Home Mortgage Loans

Table 11 below shows that FNBZ's home mortgage lending in low- and moderate-income geographies is adequate. Lending within low-income geographies for all three years tends to mirror the assessment area characteristic of 2 percent with the exception of 1996, where FNBZ's lending (number of loans) was at 1 percent. While the percent of moderate-income loans (number) for 1996 and 1997 were slightly below the assessment area characteristics, 1998 fell short by 10 percent (16 percent versus 6 percent). However, referring back to Table 10, FNBZ ranks high compared to its competitors in lending within low- and moderate-income geographies.

Geography Income Level	1996				1997				1998 Year-to-Date				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ (000s)			# Loans	\$ (000s)	
Low	4	\$132	1%	1%	7	\$205	2%	1%	10	\$661	2%	2%	2%
Moderate	38	\$2,472	13%	13%	35	\$2,127	9%	9%	28	\$1,173	6%	4%	16%
Middle	230	\$14,085	77%	74%	332	\$19,609	81%	80%	351	\$26,083	81%	80%	67%
Upper	26	\$2,203	9%	12%	35	\$2,608	9%	11%	45	\$4,786	10%	15%	14%
<b>TOTAL*</b>	<b>298</b>	<b>\$18,892</b>	<b>100%</b>	<b>100%</b>	<b>409</b>	<b>\$24,549</b>	<b>101%</b>	<b>101%</b>	<b>434</b>	<b>\$32,703</b>	<b>99%</b>	<b>101%</b>	<b>100%</b>

Source: FFIEC 1997 and 1996 Filed Home Mortgage Disclosure Act (HMDA) Data; 1998 Bank internal year-to-date HMDA Data; 1990 Census Data, U.S. Bureau of the Census; \* - Some percentages do not equal 100% due to rounding.

(A) - Assessment area characteristics (percent distribution of owner-occupied housing units) to be compared to 1998 year-to-date and 1997 data. Similar data for low, moderate, middle, and upper level tracts for 1996 is 2%, 15%, 73%, and 10%, respectively.

Table 12 takes the results from Table 11 for year-to-date 1998 and further breaks down the mortgage products by type. Here, it can be noted that home purchases and refinances tend to mirror the assessment characteristic of 2 percent for loans originated in low-income geographies. As for moderate-income geographies, only multi-family originations exceeded the assessment area characteristic of 16 percent. Overall conclusions; however, are similar to those derived from analyzing Table 11.

<p><b>Table 12 Mortgage Loan Distribution by Loan Product and Income Level of Geography January 1, 1998 through October 21, 1998</b></p>
--

Income Level of Geography	Type of Mortgage Loan										(A)
	Home Purchase		Home Improvement		Refinance		Multi-Family		Totals		
	Number of Loans	Dollar (000s)	Number of Loans	Dollar (000s)	Number of Loans	Dollar (000s)	Number of Loans	Dollar (000s)	Number of Loans	Dollar (000s)	
Percent of Number	Percent of Dollar	Percent of Number	Percent of Dollar	Percent of Number	Percent of Dollar	Percent of Number	Percent of Dollar	Percent of Number	Percent of Dollar		
Low Income	13	\$700	1	\$6	7	\$292	0	\$0	21	\$998	2%
	2%	2%	1%	0%	2%	1%	0%	0%	2%	1%	
Moderate Income	55	\$3,166	11	\$175	31	\$1,880	4	\$551	101	\$5,772	16%
	10%	7%	7%	10%	7%	6%	50%	31%	9%	8%	
Middle Income	412	\$33,051	123	\$1,141	374	\$24,382	4	\$1,203	913	\$59,777	67%
	78%	77%	82%	66%	83%	82%	50%	69%	80%	79%	
Upper Income	51	\$6,058	15	\$417	40	\$3,122	0	\$0	106	\$9,597	14%
	10%	14%	10%	24%	9%	11%	0%	0%	9%	13%	
TOTAL	531	\$42,975	150	\$1,739	452	\$29,676	8	\$1,754	1,141	\$76,144	100%
	100%	100%	100%	100%	101%	100%	100%	100%	100%	*101%	

Source: FFIEC 1996, 1997, and Bank Internal 1998 year-to-date HMDA Data; 1990 Census Data, U.S. Bureau of the Census.

(A) - Assessment area characteristics; Percent of Owner-Occupied Housing Units.

\* - Does not equal 100% due to rounding.

### Small Business Loans

Results from the 1997 sampled data shows that the volume of small business lending in moderate-income areas is below the assessment area characteristics. While FNBZ originated 4 percent of its loans to businesses in low-income geographies compared to an assessment area characteristic of 3 percent, it only originated 4 percent of its loans in moderate-income geographies compared to an assessment area characteristic of 21 percent. Small business and small farm data for 1996 and 1998 was not analyzed in Tables 13, 14, and 15 due to previously mentioned data integrity systemic concerns. Therefore, only the sampled 1997 data was used.

**Table 13**  
**Small Loans to Businesses by Income Level of Geography**  
**January 1, 1996 through October 21, 1998**

Geography Income Level	1996				1997				1998 Year-to-Date				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ (000s)			# Loans	\$ (000s)	
Low					1	\$116	4%	11%					3%
Moderate					1	\$82	4%	8%					21%
Middle					17	\$755	74%	72%					61%
Upper					4	\$95	17%	9%					15%
<b>TOTAL</b>					<b>23</b>	<b>\$1,048</b>	<b>*99%</b>	<b>100%</b>					<b>100%</b>

Source: FFIEC 1997 CRA Disclosure Statement data (Sampled).

(A) - Assessment area characteristics (percent distribution of businesses) to be compared with 1998 year-to-date and 1997 data. Similar data for low, moderate, middle, and upper level tracts for 1996 is 8%, 16%, 67%, and 9%, respectively.

\* - Does not equal 100% due to rounding.

### Small Farm Loans

As Table 14 below reveals, there were no loans originated in low- and moderate-income geographies in 1997. However, FNBZ only reported originating a total of 14 small farm loans in 1997. As indicated in the Description of the Institution section of this report, farm loans are not a major focus of lending for FNBZ.

Geography Income Level	1996				1997				1998 Year-to-Date				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ (000s)			# Loans	\$ (000s)	
Low					0	\$0	0%	0%					3%
Moderate					0	\$0	0%	0%					17%
Middle					5	\$96	100%	100%					69%
Upper					0	\$0	0%	0%					11%
<b>TOTAL</b>					<b>5</b>	<b>\$96</b>	<b>100%</b>	<b>100%</b>					<b>100%</b>

Source: FFIEC, 1997 CRA Disclosure Act data (Sampled); 1990 Census Data, U.S. Bureau of the Census.

(A) - Assessment area characteristics (percent distribution of farms).

### Loan Penetration

FNBZ originated loans in a majority of its low- and moderate-income geographies. Table 15 shows a good distribution of loans within the assessment area. With the exception of business and farm loans originated in 1997, FNBZ's percentage of penetration of different income levels was 50 percent or better. No unexplained gaps in lending were noted.

**Table 15**  
**Number of Geographies Penetrated by Loan Product**  
**January 1, 1996 through October 21, 1998**

Geography Income Level	1996		1997		1998 Year-to-Date		*(A)
	Mortgage Loans	Business and Farm Loans	Mortgage Loans	Business and Farm Loans	Mortgage Loans	Business and Farm Loans	
	Number of Geographies	Number of Geographies	Number of Geographies	Number of Geographies	Number of Geographies	Number of Geographies	
	Percent of Geographies	Percent of Geographies	Percent of Geographies	Percent of Geographies	Percent of Geographies	Percent of Geographies	
Low Income	1		1	1	1		1
	50%		100%	100%	100%		100%
Moderate Income	8		5	1	3		6
	80%		83%	17%	50%		100%
Middle Income	28		17	11	16		24
	82%		71%	46%	67%		100%
Upper Income	3		1	1	1		4
	75%		25%	25%	25%		100%
TOTAL	40		24	14	21		35
	80%		69%	40%	60%		100%

Source: FFIEC, 1997 and 1996 HMDA data; 1998 year-to-date HMDA provided by FNBZ; FFIEC, 1997 CRA Disclosure Statement data (Sampled); 1990 Census Data, U.S. Bureau of the Census.

(A) - Assessment area characteristics (number of geography types within assessment area) to be compared with 1998 year-to-date and 1997 data. Similar data for low, moderate, middle, and upper level tracts for 1996 is 2%, 10%, 34%, and 4%, respectively.

\* - The number of low, moderate, middle, and upper income tracts for 1996 differs from that for 1997 and 1998. See Note (A) above.

### Loans by Borrower Distribution

FNBZ has an adequate penetration of loans among borrowers of different incomes and businesses and farms of different sizes. FNBZ's lending to low- and moderate-income borrowers and small businesses and farms is adequate.

### Home Mortgage Loans

Table 16 shows that FNBZ's lending to low- and moderate-income borrowers is below the assessment area characteristics. Referring back to Table 10 shows that FNBZ ranks within the top three, in most categories, when compared to its competitors.

**Table 16**  
**Mortgage Loans Originated Within the Bank's Assessment Areas**  
**January 1, 1996 through October 21, 1998**

Borrower Income as a Percent of HUD MSA Median Family Income	1996				1997				1998 Year-to-Date				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ Loans	Percent of Total		# Loans	\$ Loans	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ Loans			# Loans	\$ (000s)	
Low Income	21	\$560	7%	3%	48	\$805	12%	3%	41	\$975	9%	3%	20%
Moderate Income	51	\$2,048	17%	11%	55	\$1,830	13%	7%	69	\$3,652	16%	11%	18%
Middle Income	85	\$4,417	29%	23%	108	\$4,726	26%	19%	115	\$6,798	27%	21%	25%
Upper Income	123	\$10,398	41%	55%	169	\$14,114	41%	57%	166	\$16,993	38%	52%	36%
NA	18	\$1,469	6%	8%	29	\$3,074	7%	13%	43	\$4,285	10%	13%	NA
<b>TOTAL</b>	<b>280</b>	<b>\$17,423</b>	<b>100%</b>	<b>100%</b>	<b>409</b>	<b>\$24,549</b>	<b>*99%</b>	<b>*99%</b>	<b>434</b>	<b>\$32,703</b>	<b>100%</b>	<b>100%</b>	<b>*99%</b>

Source: FFIEC, 1997 and 1996 HMDA data; 1998 year-to-date HMDA data provided by FNBZ; 1990 Census Data, U.S. Bureau of the Census.

\* - Does not equal 100% due to rounding.

(A) - Assessment area characteristics (percentage of families in the bank's assessment area defined by the U.S. Bureau of Census as low, moderate, middle, and upper income). Similar data for 1996 is 21%, 19%, 26%, and 33% respectively.

NA - Not applicable, data not available.

Table 17 shows a breakdown of lending to borrowers of different incomes by mortgage loan product. The conclusions are similar to those arrived at from Table 16.

**Table 17**  
**Mortgage Loan Distribution by Loan Product and Income Level of Borrower**  
**January 1, 1996 through October 21, 1998**

Borrower Income as a Percent of HUD MSA Median Family Income	Home Purchase		Home Improvement		Refinance		Totals		Assessment Area Characteristics
	# Loans	\$ (000s)	# Loans	\$ (000s)	# Loans	\$ (000s)	# Loans	\$ (000s)	Percent Distribution of Families
	% of Loans	% of Dollars	% of Loans	% of Dollars	% of Loans	% of Dollars	% of Loans	% of Dollars	
Low Income	39	\$1,278	43	\$179	28	\$883	110	\$2,340	20%
	7%	3%	29%	10%	6%	3%	10%	3%	
Moderate Income	81	\$4,458	24	\$239	70	\$2,833	175	\$7,530	18%
	15%	10%	16%	14%	15%	10%	15%	10%	
Middle Income	144	\$9,061	47	\$411	117	\$6,469	308	\$15,941	25%
	27%	21%	31%	24%	26%	22%	27%	21%	
Upper Income	225	\$23,967	32	\$543	201	\$16,995	458	\$41,505	36%
	42%	56%	21%	31%	44%	57%	40%	56%	
NA	42	\$4,211	4	\$367	36	\$2,496	82	\$7,074	NA
	8%	10%	3%	21%	8%	8%	7%	10%	
TOTAL	531	\$42,975	150	\$1,739	452	\$29,676	1,133	\$74,390	*99%
	*99%	100%	100%	100%	*99%	100%	*99%	100%	

Source: FFIEC, 1997 and 1996 HMDA data; 1998 year-to-date HMDA data provided by FNBZ; 1990 Census Data, U.S. Bureau of the Census.

\* - Does not equal 100% due to rounding.

NA - Not applicable, data not available.

### Business Loans

From our sample of 37 loans taken from 1997, FNBZ's lending to small businesses is adequate. While most loans (or 81 percent) were originated for less than \$100,000, 63 percent were to businesses with gross annual revenues of less than \$1 million. This can be seen by reviewing Table 18 below:

<p><b>Table 18</b>  <b>Small Loans to Businesses by Loan Size and Small Loans</b>  <b>to Business with Gross Annual Revenues of Less Than \$1 Million</b>  <b>January 1, 1997 through December 31, 1997</b></p>
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Loan Origination Size:	Number of Loans	Dollar (000s)	Percent of Total	
			Number of Loans	Dollar (000s)
Less than \$100,000	26	\$811	81%	43%
\$100,000 < \$250,000	4	\$551	13%	29%
\$250,000 ≤ \$1,000,000	2	\$513	6%	27%
Total Small Loans	32	\$1,875	100%	99%
Total Small Loans to Businesses with Gross Annual Revenues of Less Than \$1 Million	20	\$579		
As a Percent of Total Small Loans	63%	31%		

Source: FFIEC, 1997 CRA Disclosure Statement data (Sampled).

### Farm Loans

Sampled data from 1997 shows that all loans (100 percent) originated to farms were for amounts less than \$100,000. In addition, 80 percent were to farms with gross annual revenues of less than \$1 million. This is considered reasonable given that FNBZ's focus is not agricultural lending as was outlined in the Description of the Institution section of this report..

Table 19 Small Loans to Farms by Loan Size and Small Loans to Farms with Gross Annual Revenues of Less Than \$1 Million January 1, 1997 through December 31, 1997				
Loan Origination Size:	Number of Loans	Dollar (000s)	Percent of Total	
			Number of Loans	Dollar (000s)
Less than \$100,000	5	\$96	100%	100%
\$100,000 < \$250,000	0	\$0	0%	0%
\$250,000 ≤ \$1,000,000	0	\$0	0%	0%
Total Small Loans	5	\$96	100%	100%
Total Small Loans to Farms with Gross Annual Revenues of Less Than \$1 Million	4	\$66		
As a Percent of Total Small Loans	80%	69%		

Source: FFIEC, 1997 CRA Disclosure Statement data (Sampled).

### **Innovative and/or Flexible Lending Programs**

FNBZ utilizes flexible lending practices in an attempt to meet the need of affordable housing and small

business and small farm lending. Following are some flexible programs utilized by FNBZ. It should be noted that loans originated under these programs are also included in loans reported by the bank as home mortgage loans and loans to small businesses.

- o FNBZ created a residential home mortgage loan product called the Desirable Real Estate Affordable Mortgage (DREAM) Loan which was designed to help low- and moderate-income individuals obtain home mortgages. Unique features of this product include relaxed down payment features (3 percent) as well as no private mortgage insurance (PMI). The maximum loan amount is \$77,000 for up to a 30-year term. FNBZ has offered a fixed-rate option, but has since implemented a variable-rate option. This option is a 3-year adjustable-rate mortgage (ARM) whereby the rate cannot change by more than 1 percent at each rate-change date and cannot change by more than 5 percent from the initial rate over the life of the loan. FNBZ originated a total of 25 DREAM loans during 1997 through 1998.
- o FNBZ also actively participates in the State of Ohio Link Deposit Program. This program is tied to job creation or retention (\$25,000 per job) with special consideration to counties with high unemployment rates. In exchange for the receipt of a below-market certificate of deposit rate from the State of Ohio, FNBZ will reduce and fix the customer's loan rate for a two-year period. This comes with the option to renew at a fixed rate for an additional two-year period. FNBZ has originated 23 loans as of December 30, 1998.
- o FNBZ participates in the United States Department of Agriculture (USDA) Rural Development Guaranteed Business and Industry Loan Program. This program is designed to assist rural employers in the creation or retention of jobs. This is accomplished through an 80 percent guarantee on loans for projects that show the ability to create or retain jobs in the communities of 50,000 or fewer persons. FNBZ has originated 8 loans totaling \$10,290,750 for 1998.
- o FNBZ offers a 100 percent mortgage loan product whereby the customer is not required to pay PMI. In actuality, FNBZ will finance up to 106 percent which includes any closing costs the customer might have to pay. This product provides 100 percent financing of the purchase price or appraised value which is split between an 80 percent to 85 percent loan-to-value first mortgage loan retained by FNBZ and a remaining 15 percent or 20 percent second mortgage to be sold to investors in the secondary market. It should be noted that no other lender in Muskingum or Guernsey Counties offers this type of financing. FNBZ originated 26 of these first mortgages in 1997 and 1998 totaling in excess of \$1.7 million.

### **Community Development Loans**

FNBZ has no community development loans. In 1997, it reported 58 loans totaling \$2.4 million as

Community Development Loans. Data integrity testing showed that none of the loans qualified under the definition of community development.

## **INVESTMENT TEST**

FNBZ's performance under the Investment Test is rated Low Satisfactory due to the following reasons:

- C The level of qualified investments, \$431,975 is adequate for the bank's community. This represents a little more than 1 percent of FNBZ's equity capital of \$38,123,000 at March 31, 1998. According to community contacts, opportunities for qualified investments within the bank's assessment areas, while available, tend to be limited.
  
- C FNBZ's investments are neither innovative nor complex.

Following are examples of FNBZ's qualified investments:

- o FNBZ has provided a total of \$350,000 to a fund that it was instrumental in establishing whose mission is to provide loans to small businesses within its community as well as to small businesses within a larger, statewide region. FNBZ started this fund out of its Cleveland, Ohio LPO; however, in 1998, geographic coverage was expanded to include Franklin and Muskingum Counties.
  
- o FNBZ donated \$4,000 in 1997 and \$23,400 in 1998 to a community foundation whose primary mission is to provide grants to low- and moderate-income persons within the community when specific needs arise. There are no caps on the amount of assistance one can receive and generally non-profit organizations tend to make application for these funds.
  
- o FNBZ provided donations of \$2,000 in 1997 and \$300 in 1998 to a local organization whose primary mission is to provide an activity center for children of low- and moderate-income families and gives them additional opportunities they would ordinarily not be able to receive. Examples of opportunities include individual learning skills and group activities.
  
- o FNBZ provided a total of \$5,000 (\$2,500 in 1997 and \$2,500 in 1998) to a local housing organization which assists low- and moderate-income individuals in owning a home. The organization builds homes for low- and moderate-income families. The future homeowner's first mortgage equals the actual cost to build the home. A second mortgage, equal to the difference between the first mortgage and the market value of the home, is also attached. The homeowner does not have to repay the second mortgage if he/she remains in the home for ten years. The second mortgage will be reduced by 10 percent for each year the family remains in the home.

- o FNBZ donated \$3,000 to an organization for disaster relief in the community as a result of flood and tornado damage. These funds helped to stabilize the community after the occurrence of this natural disaster.
- o FNBZ donated \$3,000 to an organization to go toward a local homeless shelter.
- o FNBZ donated \$11,050 in 1997 and \$21,100 in 1998 to an organization for programs to assist low- and moderate-income individuals with basic needs. Five hundred dollars of this was received by a local housing organization.
- o FNBZ donated \$8,000 to a local college to provide for scholarships to students of low- and moderate-income families. This program, in which the college participates, also accepts donations from the state as well. Dislocated workers and low- and moderate-income students, depending upon need, can qualify for full tuition grants. These students would then only need to buy their books.
- o FNBZ contributed smaller amounts totaling \$1,425 to other organizations that promote community development.

## **SERVICE TEST**

FNBZ's performance under the Service Test is rated Low Satisfactory. This is supported by the following reasons:

- C the existence of branch locations which are reasonably accessible to essentially all portions of the bank's assessment areas; and,
- C an adequate level of community development services.

### **Retail Banking Services**

FNBZ's delivery systems are reasonably accessible to all portions of the bank's assessment areas. Table 20 shows no office locations in the bank's only low-income geography and only one office in one of the six moderate-income geographies. It should be noted that despite having no physical locations in the bank's only low-income tract, the majority of branches surround this tract providing for reasonable access for customers in this tract. This is also the case for several of the moderate-income tracts.

<p>Table 20 Distribution of Retail Banking Services</p>
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Income Level of Geography	Number of Offices	Percent of Offices	Assessment Area Characteristics	
			Percent Distribution of Geographies	Percent Distribution of Population
Low Income	0	0%	3%	3%
Moderate Income	1	9%	17%	17%
Middle Income	10	91%	69%	67%
Upper Income	0	0%	11%	13%
Total	11	100%	100%	100

Source: Internal information provided by FNBZ; 1990 Census Data, U.S. Bureau of the Census.

FNBZ had 11 offices in its assessment areas during 1998. Ten of the offices were located in Muskingum County and one office was located in Franklin County. The Franklin County office was located inside of a supermarket and provided limited services. A variety of products and services are offered in order to suit the needs of each individual customer. Any loan requests made to the Franklin County office were referred to County Savings Bank, an affiliate at the time. Bank management; however, was unable to provide documentation showing the number and dollar amount of loans that were referred to the affiliate.

Office hours are tailored to meet the needs of the community. In order to determine the exact needs of each office, FNBZ annually tracks its volume, by branch location. This assists bank management in determining the hours of operation appropriate for each branch location. Of the eleven office locations, all but one was equipped with a drive-up facility. Lobby hours varied on Monday through Thursday from 9:00 am - 4:00 pm to 7:00 am - 7:00 pm. Friday hours were extended until 6:00 pm or 7:00 pm, depending upon location. Eight of the locations were open on Saturdays and the grocery store branch in Franklin County was also open on Sundays from noon until 6:00 pm.

### Alternative Delivery Systems

Five of FNBZ's 11 office locations had full-service automated teller machines (ATMs). These were located at the following locations: Maple Bell, Colony Square, Zane Plaza, Sunrise, and New Concord. Table 21 shows that the number of ATMs located in low- and moderate-income geographies is reasonably accessible to essentially all portions the bank's assessment area(s). Again, it should be noted that despite having no physical locations in the bank's only low-income tract, the majority of branches surround this tract providing for easy access for customers in this tract. This is also the case for several of the moderate-income tracts.

<p><b>Table 21</b>  <b>Distribution of Alternative Delivery Systems</b></p>
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Income Level of Geography	Automated Teller Machines		Assessment Area Characteristics	
	Number of Machines	Percent of Total	Percent Distribution of Geographies	Percent Distribution of Population
Low Income	0	0%	3%	3%
Moderate Income	0	0%	17%	17%
Middle Income	5	100%	69%	67%
Upper Income	0	0%	11%	13%
Total	5	100%	100%	100%

Source: Internal information provided by FNBZ; 1990 Census Data, U.S. Bureau of the Census.

In addition, FNBZ had two cash-only dispensing ATMs, one located at Colony Square Mall and a second located at Muskingum Area Technical College.

FNBZ, in its attempt to accommodate all customers, allows banking by telephone.

### Community Development Services

FNBZ demonstrates an adequate level of response to community development services. The nature of these services, along with brief explanations, is given below:

- o FNBZ has sponsored home buyer seminars designed to educate the community on lending products available for home purchase, refinance, and home improvement.
- o The bank also has sponsored and conducted banking seminars to educate the community on banking products in general. FNBZ has gone out to the local high schools and given seminars on how to become financially responsible. FNBZ has gone out to all five local high schools with this program.
- o Two of the bank's officers provided technical expertise to a local housing organization by sitting on its board of directors. In addition, two bank employees provided technical expertise to the organization's fund raising committee.
- o One bank employee participated in the Federal Home Loan Bank's 1997 community development conference, titled Capital Ideas for Building a Better Tomorrow's Communities. Represented at this conference were community groups from a three to four state regional area. The FNBZ employee presented details on the bank's DREAM loan product.
- o Bank employees provided technical expertise to another local housing authority.
- o The bank sent employees to a local housing authority to educate them on home buyer education

programs and banking products. FNBZ also provided technical support to this organization to develop a micro-loan fund for small businesses.

- o FNBZ also provided technical expertise to other housing organizations and credit counseling services.
- o FNBZ employees provided technical assistance to a local business network whose mission is to provide small business opportunities for minority-based small businesses.

## **FAIR LENDING REVIEW**

We performed a fair lending examination in conjunction with this CRA examination. Matched pair analysis was performed to determine if rates, terms, and conditions were applied equally to all similarly situated applicants. In addition, we reviewed for technical compliance with the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act. We reviewed 71 home purchase loans originated between June 1, 1997 and October 31, 1998. Only loans originated through the Zanesville Offices were included as part of the sample. In summary, we noted no evidence of discriminatory practices within our sampled loans.

## **COLUMBUS, OH MSA 1840**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN COLUMBUS, OH MSA 1840**

FNBZ's assessment area within the Franklin County, Ohio MSA 1840 includes only nine census tracts. This is the location of the bank's branch within a local supermarket chain. We reviewed the bank's operations in this area. The following is additional information on the bank's operations in this area:

- C 0.39 percent of deposits
- C 9 percent of branches (1 of 11 total branches)
- C the branch is located in a middle-income geography

The following summarizes FNBZ's Columbus, OH MSA 1840 demographic information in relation to FNBZ's total assessment area demographics:

- C 24 percent of the population
- C 23 percent of the families
- C assessment area has no low- and moderate-income tracts
- C 26 percent of the geographies (9 of 35)

Tables 22 and 23 provide additional information with respect to FNBZ's MSA 1840 assessment area:

Table 22 Demographic Information of MSA 1840						
Income Level of Geography	Total Population	Percent of Total	Number of Geographies	Percent of Total	Number of Owner Occupied Housing Units	Percent of Geographies
<b>Assessment Area</b>						
Low Income	There are no low income geographies in this assessment area.					
Moderate Income	There are no moderate income geographies in this assessment area.					
Middle Income	21,078	62%	6	67%	3,883	51%
Upper Income	13,156	38%	3	33%	3,790	49%
<b>Total</b>	<b>34,234</b>	<b>100%</b>	<b>9</b>	<b>100%</b>	<b>7,673</b>	<b>100%</b>

Source: 1990 Census, U.S. Bureau of the Census.

Table 23 Family Income Information		
Income as a Percent of HUD* MSA Median Family Income	Number of Families	Percent of Total
<b>Assessment Area for 1998 and 1997</b>		
Low Income	925	10%
Moderate Income	1,445	16%
Middle Income	2,608	28%
Upper Income	4,299	46%
<b>Total</b>	<b>9,277</b>	<b>100%</b>

Source: 1990 Census Data, U.S. Bureau of the Census.

Tables 24 and 25 display assessment area information with regard to business and farm sectors:

Table 24 Business and Farms by Annual Revenue Size			
Type	Total Number	Sales Revenue	
		Percent with Less than \$1 Million	Percent with \$1 Million or Greater
<b>Assessment Area for 1998 and 1997</b>			
Business	1,217	94%	6%
Farm	22	100%	0%

Source: 1990 Census Data, U.S. Bureau of the Census.

Table 25 Business and Farm Information	
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Income Level of Geography	Businesses		Farms	
	Number of Businesses	Percent of Total	Number of Farms	Percent of Total
<b>Assessment Area for 1998 and 1997</b>				
Low Income	There are no low income census tracts in this assessment area.			
Moderate Income	There are no moderate income census tracts in this assessment area.			
Middle Income	695	57%	12	55%
Upper Income	522	43%	10	45%
<b>Total</b>	<b>1,217</b>	<b>100%</b>	<b>22</b>	<b>100%</b>

Source: 1990 Census Data, U.S. Bureau of the Census.

## COMMUNITY NEEDS

The needs of this assessment area are similar to those discussed under the Overall Conclusions-Community Needs section of this report.

The following sections discuss FNBZ's lending, investments, and services in MSA 1840:

## CONCLUSIONS ABOUT PERFORMANCE IN MSA 1840

FNBZ's performance in this assessment area is not consistent with the overall conclusions of the bank considering the bank's performance in this area. However, since this area represents only 0.40 percent of FNBZ's deposit base and contains only 24 percent of the assessment areas population, this will not have a material affect upon the bank's overall rating.

## LENDING TEST

Lending within this assessment area needs to be enhanced.

The bank's 1997 HMDA-LAR and CRA Disclosure Statement show no loan activity from this branch office. Bank management said that any applications received by this branch would have been forwarded to a nearby affiliate in the Columbus area, County Savings. No evidence could be produced to support this contention.

## INVESTMENT TEST

The level of investment activity within this assessment area is reasonable due to the extremely small size (nine census tracts) of the assessment area. The opportunity for qualified investments in this small area is limited.

There were no qualified investments during the review period attributable to this assessment area.

## **SERVICE TEST**

FNBZ's retail banking services are reasonably accessible within this defined assessment area. There were no community development services attributed to this assessment area. Also, there is only one alternative delivery system in this assessment area.

### **Retail Banking Services**

FNBZ's only office in this area is located within a supermarket in Franklin County, Ohio. This office is located in a middle income census tract. This assessment area consists of six middle income census tracts and three upper income tracts. The location of this office is reasonable given the location of all of the nine tracts.

This office held hours from 10:00 am - 8:00 pm Monday through Friday, Saturdays from 10:00 am - 6:00 pm, and Sundays from noon - 6:00 pm.

### **Alternative Delivery Systems**

FNBZ offers banking by telephone services to its customers.

### **Community Development Services**

There are no community development services attributed to this assessment area.

## **Appendix**

## **Scope of Examination**

The following defines the scope of the public evaluation:

- o All assessment areas were reviewed using the CRA Examination Procedures.
- o The period of review was January 1, 1996. (the date of FNBZ's last CRA Examination through December 8, 1998.
- o Primary data used to assess the bank's lending performance consisted of 1996, 1997, and year-to-date 1998 (through October 21, 1998) HMDA data. Systemic weaknesses in the bank's systems designed to capture CRA Disclosure Data precluded us from using that data which was filed for 1996 and 1997. A small sample from 1997 (32 small loans to businesses and 5 small loans to farms) were utilized to determine the bank's performance in lending to small businesses and small farms.
- o No affiliate lending was utilized.
- o Three banking offices (including the main office) were visited.

## **Current Assessment Area (expanded due to merger at May 1998)**

FNBZ's merger with two of its affiliates in May 1998 has resulted in a new, larger assessment area. Table 26 below outlines this new assessment area which FNBZ currently denotes in its public file.

**Table 26**  
**FNBZ's Defined Assessment Areas**  
**As Currently Defined and Noted in FNBZ's Public File**

Assessment Areas	Number of Geographies	Geographies
<b>Current Assessment Areas (Post-Merger)</b>		
<p align="center"><b>Assessment Area #1</b></p> <p align="center">Muskingum /Guernsey Counties, OH (Non-metropolitan areas)</p>	<p align="center">19</p>	<p><b>Low Income:</b></p> <p>9821.00</p> <p><b>Moderate Income:</b></p> <p>9814.00      9820.00</p> <p><b>Middle Income:</b></p> <p>9810.00    9811.00    9812.00    9813.00    9815.00            9817.00    9818.00    9819.00    9822.00    9823.00            9824.00    9825.00    9826.00    9827.00    9828.00</p> <p><b>Upper Income:</b></p> <p>9816.00</p>
<p align="center"><b>Assessment Area #2</b></p> <p align="center">Franklin County (Columbus, OH MSA 1840)</p>	<p align="center">252</p>	<p><b>Low Income:</b></p> <p>35 Tracts</p> <p><b>Moderate Income:</b></p> <p>64 Tracts</p> <p><b>Middle Income:</b></p> <p>93 Tracts</p> <p><b>Upper Income:</b></p> <p>57 Tracts</p> <p>NA</p> <p>3 Tracts</p>
<p align="center"><b>Assessment Area #3</b></p> <p align="center">Clark/Greene/Montgomery Counties (Dayton - Springfield, OH MSA 2000)</p>	<p align="center">54</p>	<p><b>Low Income:</b></p> <p>0 Tracts</p> <p><b>Moderate Income:</b></p> <p>6 Tracts</p> <p><b>Middle Income:</b></p> <p>18 Tracts</p> <p><b>Upper Income:</b></p> <p>30 Tracts</p>