



# SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

June 20, 2012

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

The First Citizens National Bank of Upper Sandusky  
Charter Number 18783

100 North Sandusky  
Upper Sandusky, Ohio 43351

Office of the Comptroller of the Currency

325 Cramer Creek Court, Suite 101  
Dublin, Ohio 43017

**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**

- First Citizens National Bank (FCNB)'s loan-to-deposit ratio is reasonable compared to other similarly situated financial institutions within its assessment area.
- FCNB's lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration
- A majority of FCNB's lending activity occurs within its identified assessment areas.

**SCOPE OF EXAMINATION**

We used the Small Bank Community Reinvestment Act (CRA) procedures to assess FCNB's CRA performance. We evaluated: the reasonableness of FCNB's loan-to-deposit ratio; lending within its assessment area; and the reasonableness of its lending penetration to borrowers of different income incomes and business of different sizes. As FCNB's assessment area for the review period contained only middle- or upper-income geographies, a geographic distribution analysis was not required. In addition, we also assessed its responsiveness to CRA related complaints and compliance with fair lending laws and regulations.

Our review period covered lending activity for the years 2010 and 2011. We reviewed FCNB's primary loan products over that time period. Those primary loan products were: residential real estate; commercial/commercial estate; and agricultural/farmground. Please refer to the following table for detail regarding FCNB's lending origination volumes by loan type.

<b>2010 &amp; 2011 Lending Origination Volume</b>		
<b>Loan Type</b>	<b>Percentage by number of loans originated</b>	<b>Percentage by dollar amount of loans originated</b>
Residential Real Estate	27%	43%
Commercial/Commercial Real estate	24%	27%
Agricultural/Farmground	15%	25%
Consumer Installment	29%	3%
Other	5%	2%

We used all of FCNB's 2010 and 2011 Home Mortgage Disclosure Act (HMDA) data to assess its residential real estate lending activity. To assess its commercial/commercial real estate and agricultural/farmground activity, we used random samples from loans originated in 2010 and 2011.

## **DESCRIPTION OF INSTITUTION**

FCNB is an independent, intrastate community bank located approximately 65 miles north of Columbus, Ohio, in the city of Upper Sandusky, Ohio, the Wyandot County seat. The bank's primary business focus is retail, commercial, and agricultural banking and it offers traditional products and services through a total of nine full service offices. The most recent office was opened during 2002, and FCNB has never closed a branch. Overall competition for loans and deposits within the bank's overall marketing area is moderate, and comes primarily from several local community banks and credit unions, as well as branches of regional/national institutions. However, competition within the Powell, Ohio market segment is strong.

Currently, no legal or economic impediments exist that could restrict the institution's ability to serve the community's credit needs. The bank earned a rating of satisfactory at the prior CRA examination (November 14, 2005).

As of March 31, 2012, FCNB reported total assets of \$234 million, Tier One capital of \$38 million, and gross loans of \$118.6 million. Residential real estate loans represented about 44% of gross loans, commercial/commercial real estate loans were 33% of gross loans, and agricultural/farmground loans accounted for 16% of gross loans.

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

For this evaluation period, FCNB has three AAs. There are two non Metropolitan Statistical Area (MSA) AAs and one AA in the Columbus Ohio MSA. These three AAs completely surround the FCNB's offices, meet the requirements of the regulation, and do not arbitrarily exclude any low- or moderate-income areas.

### **1<sup>st</sup> Non MSA AA:**

The first and primary AA (Non MSA) represents all six Census Tracts (CT) of Wyandot County, two CTs in northeast Hardin County, one CT in southeast Hancock County, and one CT in western Crawford County. Given its size and structure, FCNB is not able to adequately meet the credit and banking needs for all of Hardin, Hancock, and Crawford Counties. Another factor is the level of competition within those counties and FCNB's branch locations. Because of these facts, FCNB's decision to include only parts of those counties within its AA is reasonable and consistent with the requirements of the regulation.

FCNB holds about 6% of all the deposits within these four counties, which ranks it fifth out of the twenty-six financial institutions, according to the June 30, 2011 FDIC market share report. For Wyandot County only, FCNB is the second largest deposit holder with a 31.6% market share.

This non-MSA AA has ten CTs (nine middle-income and one upper-income). According to the FDIC's June 30, 2011 market share report, about 90% of FCNB's deposit base is

within these four counties. This AA represents the bank's primary market territory and was provided the most weight in the final evaluation.

The economic condition in this AA is strained but showing signs of modest improvement. During the economic recession noted during the last several years (starting in 2008/2009), this area lost both industry and jobs. Currently, there is activity with respect to investment in buildings/other capital assets and an increase in employment. However, those new jobs are lower paying than those lost. The combined average unemployment rate for these four counties represented 7.1% at May 2012 compared to the State of Ohio average rate of 6.9% and the national average rate of 7.9%. Agriculture is an important segment of this AA's economic base.

A community contact (conducted as part of this examination) with a local government official in Wyandot County indicated that while current loan demand is low, there are needs for affordable home loan financing and agricultural lending. Small business lending is less of a need given the increased service oriented nature of the small businesses in the county. The overall reputation of local financial institutions is positive and key credit/banking needs are being met. The management of these institutions are involved in the community and actively participate in various boards and committees that serve to improve the county and/or its citizens.

## **2<sup>nd</sup> Non MSA AA:**

The second Non-MSA AA consists of 1 CT (an upper-income tract) in Marion County that is not contiguous to the 1<sup>st</sup> Non MSA AA and represents a separate AA. This AA was added to coincide with the opening of FCNB's branch in Marion (September 2002). This AA has remained unchanged through the evaluation date as management has been cautious about expanding the AA until they could effectively determine where the majority of activity in the Marion County AA was centered. Currently, internal reports show that lending out of the Marion County branch accounts for 18% of FCNB's entire loan portfolio and deposit activity from Marion County accounts for 7% of FCNB's total deposit base. For this CRA review period (lending activity through 2011), activity in this AA was combined with the other Non MSA AA (the 1<sup>st</sup>) for analysis and conclusion purposes (Combined non MSA AA). This approach is reasonable based on the small size of this AA (one CT), its Non MSA nature, and its similarity to the other Non MSA AA tracts.

Based on the 2000 Census, this Combined Non-MSA AA had a population of 44,385 with 12,558 families. The Weighted Average of HUD Updated Median Family Income for 2010 was \$53,700 (\$52,900 for 2011). Of all the families living in this combined AA, 12.68% are classified as low-income (4.39% below the poverty level), 19.06% are moderate-income, 25.09% are middle-income, and 43.17% are upper-income. Of this combined AA's 18,112 total housing units, 74% are owner-occupied and have a median value of \$89,105. Based on 2011 Business Geodemographic Data (Dun & Bradstreet) for this combined AA, 70.56% of all non-farm businesses reported gross annual revenues of \$1 million or less, 2.48% reported gross annual revenues of more than

\$1 million, and 26.96% did not report any revenue information (NR). Based on this same data for farms for this combined AA, 98.79% reported gross annual revenues of \$1 million or less, 0.17% reported gross annual revenues of more than \$1 million, and 1.03% did not report any revenue information (NR).

### **Columbus Ohio MSA**

This AA consists of two upper-income census tracts in northern Delaware County. FCNB has one branch in Powell, Ohio (about 50 miles south of its main office). Historically and currently, FCNB has been unable to penetrate this market either for loans or deposits due to heavy competition from larger community and regional/national financial institutions. Per the FDIC's June 30, 2011 market share report for Delaware County, FCNB has a deposit market share of only 0.24% (13<sup>th</sup> out of 14 financial institutions in this county). Per this same report, deposits in this AA account for only 2.38% of FCNB's total deposit base. During 2010 and 2011, FCNB made only one residential real estate loan and only two commercial/commercial real estate loans (no agricultural loans) in this AA. Given this small composition and low penetration, performance in the Columbus Ohio MSA was given minimal weight in developing FCNB's CRA performance conclusions.

The 2000 census shows that this AA contains a total population of 8,361. The 2010 Weighted Average HUD Updated MSA Median Family Income was \$68,600 (\$66,600 for 2011). Of the AA's 2,376 families, 3.58% are low-income (1.47% below the poverty level), 5.68% are moderate-income, 10.73% are middle-income, and 80.01% are upper-income families. Of the AA's 3,288 housing units, 76% are owner-occupied and have an average median value of \$276,650.

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

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

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

- FCNB's loan-to-deposit ratio (LTD) is reasonable compared to other similarly situated financial institutions within and near its assessment area

FCNB's average LTD ratio over the last 27 quarters (since the prior CRA examination) is 75%. Other similarity situated financial institutions have average LTD ratios that range from 57% to 99% over the same time period. FCNB's 27-quarter average LTD ratio is near the overall average (77%) for these other similarity situated financial institutions. By similarly situated, we mean the seven other financial institutions headquartered within FCNB's three AAs (Wyandot, Hardin, Hancock, Crawford, Marion, and Delaware Counties) plus two adjoining counties (Union and Morrow Counties) with total assets between \$111 million and \$372 million.

Of note, FCNB’s average LTD ratio performance over the last 4 quarters (68%) is also consistent with the range (48% to 97%) and overall average (74%) for these similarity situated financial institutions over the last 4 quarters.

**Lending in Assessment Areas**

- A majority of FCNB’s lending activity occurs inside its AAs.

To assess performance for this criterion, we used all of FCNB’s reported HMDA data for 2010 and 2011 (Residential RE). We also sampled 20 loans, regardless of location, from each of FCNB’s other two primary loan types (40 total). The following table provides our findings from this review and supports our conclusion in this area.

<b>Lending in Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Residential RE	214	84%	42	16%	256	17,943	78%	5,019	22%	22,962
Commercial/ Commercial RE	14	70%	6	30%	20	2,824	73%	1,064	27%	3,888
Agricultural/ Farmground	13	65%	7	35%	20	1,540	61%	997	39%	2,537
<b>Totals</b>	<b>241</b>	<b>81%</b>	<b>55</b>	<b>19%</b>	<b>296</b>	<b>22,307</b>	<b>76%</b>	<b>7,080</b>	<b>24%</b>	<b>29,387</b>

*Source: 2010 & 2011 bank reported HMDA LAR data; 20 item loan sample from each of the other two primary loan types, regardless of location.*

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

- FCNB’s lending activity reflects reasonable penetration to borrower’s of different income levels and business of different sizes. This conclusion relates to performance in the Combined Non MSA AA. A meaningful conclusion cannot be made for the Columbus Ohio MSA given the miniscule loan activity (1 residential RE loan where income was not applicable, two commercial/commercial real estate loans both to businesses with annual revenues of \$1 million or less, and no agricultural/farmground loans)

Residential Real Estate Lending –

FCNB’s lending to low- and moderate-income borrowers is reasonable and approximates the key demographic data (percentage of AA families by income level). Although lending to low- income borrowers is slightly below the demographic, the fact that 4.39% of low-income families in this AA live below the poverty level and would

have difficulty meeting minimum credit standards provides further support for overall reasonable performance. Please refer to the following table for detail.

<b>Borrower Distribution of Residential Real Estate Loans in the Combined Non-MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	12.68%	7.69%	19.06%	21.54%	25.09%	29.23%	43.17%	40.00%
Home Improvement	12.68%	11.54%	19.06%	25.00%	25.09%	28.85%	43.17%	25.00%
Refinancing	12.68%	7.29%	19.06%	9.38%	25.09%	31.25%	43.17%	43.75%
Total HMDA	12.68%	8.45%	19.06%	16.90%	25.09%	30.05%	43.17%	38.03%

Source: 2010 & 2011 bank reported HMDA LAR data. For 6.57% of the total number of FCNB's HMDA loans, income was recorded as "NA" and were excluded from this table. Demographic data is from the U.S. Census.

Agricultural/Farmground Lending -

We are presenting agricultural/farmground lending in this next table as this was identified as a greater need (than commercial/commercial real estate) for this AA, and was provided more weight when developing conclusions. FCNB's lending to small farms (annual revenues of \$1 million or less) ranges from slightly below to near the key demographic figure, and represents satisfactory performance. Please refer to the following table for detail.

<b>Borrower Distribution of Loans to Farms in the Combined Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	98.79%	0.17%	1.03%	100%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100%
% of Bank Loans in AA by \$	94.40%	5.60%	0.00%	100%

Source: Sample of 20 agricultural loans in this AA; Demographic data from Dun and Bradstreet.

Commercial/Commercial Real Estate Lending -

FCNB's performance for commercial/commercial real estate lending, including consideration of all relevant factors, represent reasonable performance. However, this area was provided less weight when developing conclusions as it was identified as a lesser need in the community and a significant level of business failed to report revenue data, which limits analysis.

Given the significant percentage of businesses with “unavailable/unknown” revenue information (26.96%), we also analyzed the borrower distribution of loans to businesses by loan size. The vast majority of FCNB’s lending activity by number of loans (90%) was in amounts of \$250,000 or less. See the following two tables below for detail.

<b>Borrower Distribution of Loans to Businesses in the Combined Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.56%	2.48%	26.96%	100%
% of Bank Loans in AA by #	65.00%	30.00%	5.00%	100%
% of Bank Loans in AA by \$	16.54%	62.14%	21.33%	100%

*Source: Sample of 20 commercial/commercial real estate loans in this AA; Demographic data from Dun and Bradstreet data*

<b>Borrower Distribution of Loans to Businesses by Loan Size in the Combined Non-MSA AA</b>				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	191	75%	6,643,620	25%
\$100,001 - \$250,000	39	15%	6,539,316	24%
\$250,001 - \$500,000	15	6%	5,486,702	20%
\$500,001 - \$1,000,000	7	3%	4,318,274	16%
Over \$1,000,000	4	1%	4,000,200	15%

*Source: Internal Bank Reports from 2010 & 2011*

Opportunities to provide financing to assessment area businesses have declined and many established businesses have entrenched, electing to service existing debt and postpone growth until fully recovered from the recent recession. Many smaller businesses have turned to alternative sources of funds, such as home equity or personal lines of credit, credit cards, and/or seller financing. As noted earlier, a community contact indicated that the need for small business lending in the AA is lower given the overall service oriented nature of small business in this community. The community contact also indicated that the overall reputation of local financial institutions is positive and that key commercial credit/banking needs are being met. Lastly, the contact indicated that management of local financial institutions are involved in the community and actively participate in various boards and committees that serve to improve the county and/or its citizens.

### **Geographic Distribution of Loans**

As FCNB’s AAs contain only middle- or upper-income tracts, an analysis of the geographic distribution of its lending activity would not be meaningful and was not performed.

### **Responses to Complaints**

Neither FCNB nor our office has received any complaints about its CRA performance during the review 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.”