

## **PUBLIC DISCLOSURE**

October 30, 1998

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

**Merchants National Bank  
Charter No. 2449**

**100 North High Street  
Hillsboro, Ohio 45133**

**Office of the Comptroller of the Currency**

**Central District Office  
One Financial Place, Suite 2700  
Chicago, Illinois 60605**

**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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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Merchants National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 30, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

## OVERALL CONCLUSIONS

**Institution's CRA Rating:** This institution is rated **SATISFACTORY**.

Merchants National Bank (MNB) exhibits a satisfactory performance record. This rating is supported by:

- MNB's loan-to-deposit ratio is strong at 91% as of June 30, 1998.
- MNB is responsive to its community's credit needs as a substantial majority of the home mortgage, small business, and small farm loans originated between January 1, 1996 and September 30, 1998, were inside the bank's assessment area (AA). Ninety-eight percent of the home mortgage loan sample and 93% of the small business and small farm loan sample were inside the bank's assessment area.
- MNB has a reasonable level of lending to small businesses and farms of different sizes. Of the small business and farm loans sampled, 61% were made to businesses and farms with annual gross revenues less than \$250,000.
- MNB has a reasonable level of lending to borrowers of different income levels.

## DESCRIPTION OF INSTITUTION

Merchants National Bank is a \$205 million financial institution which is wholly-owned by Merchants Bancorp, Inc., a one bank holding company. The main office is in Hillsboro, Ohio, which is located in Highland County. Branch offices are located in Greenfield, Ohio (Highland County) and Washington Court House, Ohio (Fayette County). The bank has four branch offices in addition to the main office, with drive-up facilities at the Hillsboro and Washington Court House branches. The bank has automatic teller machines (ATM) at three of their offices and one at a grocery store in Hillsboro. The main and branch offices in Hillsboro are located in Block Numbering Area (BNA) 9549, a middle-income geography. The two Greenfield offices are in a moderate-income geography, while the Washington Court House office is located in a middle-income geography.

MNB's primary business focus is lending to individuals (residential real estate and retail) and to small businesses and farms. The bank offers a variety of lending products (both retail and commercial) to accommodate the various borrowers within their AA. At June 30, 1998, the loan portfolio consisted of the following loan types, as reported in the Consolidated Report of Condition:

<b>LOAN TYPE</b>	<b>VOLUME (000's)</b>	<b>% OF GROSS LOANS</b>
<b>Residential Real Estate</b>	\$73,129	45%
<b>Commercial Real Estate</b>	\$24,932	15%
<b>Secured by Farmland</b>	\$23,200	14%
<b>Commercial Loans</b>	\$10,217	6%
<b>Individual Loans</b>	\$20,717	13%
<b>Agricultural Loans</b>	\$9,933	6%
<b>Other Loans</b>	\$172	<1%
<b>Total Loans</b>	\$162,300	100%

There are no financial or legal impediments that affect the bank's ability to help meet the credit needs of its AA. MNB's CRA rating as of March 12, 1996, was "Satisfactory Record of Meeting Community Credit Needs."

## DESCRIPTION OF ASSESSMENT AREA

The bank's AA consists of Highland and Fayette Counties and the western portion of Ross County. The main office in Hillsboro is located in southwestern Ohio, approximately sixty miles east of Cincinnati, Ohio. The bank's AA consists of the following types of geographies: seven moderate-income (32%), fourteen middle-income (64%), and one upper-income (4%) BNAs.

There are 36,702 housing units in the bank's AA. Sixty-six percent of the housing units are owner-occupied. The bank's AA has a population of 97,091. The AA meets the requirements of the regulation and does not arbitrarily exclude low-income or moderate-income geographies.

According to 1990 census information, the Ohio statewide non-MSA (metropolitan statistical area) median family income is \$30,563. The Department of Housing and Urban Development's (HUD) estimate of the Ohio statewide non-MSA median family income was \$37,000 for 1996, \$38,800 for 1997, and \$40,500 for 1998. The economic status of families and BNA geographies are categorized into low-, moderate-, middle-, and upper-income groups using the following definitions. Low-income means an individual income or a geography that is less than 50% of the Ohio statewide non-MSA median family income. Moderate-income means an individual or a geography that is at least 50% and less than 80% of the Ohio statewide non-MSA median family income. Middle-income means an individual or a geography that is at least 80% and less than 120% of the Ohio statewide non-MSA median family income. Upper-income means an individual or a geography that is 120% or more than Ohio statewide non-MSA median family income. The distribution of families among income categories is as follows, based upon the 1990 Census median family incomes:

<b>Income as a % of Median Family Income</b>	<b>Low-Income Families</b>	<b>Moderate-Income Families</b>	<b>Middle-Income Families</b>	<b>Upper-Income Families</b>
<b>Bank's AA</b>	6,516	5,172	6,096	8,399
	25%	20%	23%	32%

The local economy is strong and diversified into agricultural, retail, and manufacturing businesses. As of September 1998, the unemployment rate in Highland County was 4.5%. While this level of unemployment is above the Ohio statewide level of 4.1%, it has shown improvement and is down from 5.2% at September 1997. The unemployment rates in Fayette and Ross counties were 3.2% and 5.2%, respectively, for September 1998.

The major employers in Highland County are Candle-Lite, Inc., WEASTEC, Inc., PMI Food Equipment Company, and Johnson Controls. In Fayette County, YUSA, a manufacturer of automobile parts, is a major employer. Many residents in the community are also employed by Airborne Express in Clinton County.

Competition in the AA is high due to several savings and loans associations, national banks, mortgage companies, and affiliates of larger financial institutions. MNB had 27% of Highland County's market share of total deposits as of June 30, 1997.

Community contacts indicated that the area's economy is strong. The credit needs of the AA are primarily for residential real estate and small business and farm loans. According to the contacts, the local financial institutions are meeting these needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### Loan-to-Deposit Ratio

*The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.*

The bank's average loan-to-deposit ratio since the last CRA examination was 87%. The bank's loan-to-deposit ratio went from a low of 77% at March 31, 1996, to a high of 91% at June 30, 1998. Ohio financial institutions with total assets of \$250 million or less had an average loan-to-deposit ratio of 74% as of June 30, 1998. The bank's ratio of 91% compares favorably to the peer bank's ratio at the same date. Based upon the performance evaluations of the other financial institutions in the AA, the loan-to-deposit ratios range from 70% to 100% with total assets ranging from \$30 million to over \$1 billion. The bank continues to exhibit the ability to enhance its lending opportunities.

### Lending in Assessment Area

*A substantial majority of MNB's loans are for the benefit of residents of the assessment area.*

We sampled forty-one home mortgage (home purchase, refinance, and home improvement), twenty-three small business, and forty-six small farm loans originated from January 1, 1996 to September 30, 1998, to determine the percentage of lending inside the bank's AA. For each loan type, we sampled at least 4% of the outstanding portfolio balances as of June 30, 1998. The total number and dollar amount of home mortgage, small business, and small farm loans originated during the evaluation period was not available for review.

The following table shows the number and dollar percentage of our sample of home mortgage, small business, and small farm loans made inside the bank's AA. The table indicates that a substantial majority of the loans are made inside the bank's AA. Ninety-eight percent of home mortgage loans, 100% of small business, and 89% of small farm loans were within the bank's AA.

<b>Lending In Assessment Area</b>				
<b>Loan Category</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Home Mortgage</b>	40	98%	\$2,389,337	97%
<b>Small Business</b>	23	100%	\$1,103,774	100%
<b>Small Farm</b>	41	89%	\$1,774,273	83%
<b>Total</b>	104	95%	\$5,267,384	92%

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

*The analysis of borrower income levels reflects, given the demographics of the assessment area, reasonable distribution among all income levels (including low- and moderate-income). The analysis of business and farm loans indicates a willingness to lend to small businesses and small farms.*

The following table shows a reasonable penetration of the distribution of home mortgage loans among borrowers of different income levels within the AA. The sample included forty home mortgage loans originated between January 1, 1996, and September 30, 1998, within the bank's AA. Our review indicated that the bank made 16% of their home mortgage loans to low- and moderate-income borrowers. The bank makes a majority of their loans to middle-income individuals. Sixty-four percent of the bank's BNAs are middle-income. In addition, there are no areas designated as low-income. This penetration to low- and moderate-income borrowers is reasonable, given the demographics of the area.

<b>Distribution of Home Mortgage Loans Among Individuals</b>								
	<b>Low Income</b>		<b>Moderate Income</b>		<b>Middle Income</b>		<b>Upper Income</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>Loan Sample</b>	8%	4%	8%	9%	52%	50%	32%	37%
<b>AA</b>	25%		20%		23%		32%	

We sampled twenty-three small business and forty-one small farm loans originated between January 1, 1996, and September 30, 1998, within the AA. Bank management indicated that a substantial majority of the community's small businesses and small farms have gross revenues less than one million. In addition, our review of business and farm loans originated in 1996 through 1998 revealed that loan origination amounts were below \$1,000,000 and \$500,000, respectively. The following table is the distribution among different sizes of businesses and farms. This table illustrates that 61% of the sampled loans were made to small businesses and farms with annual gross revenues less than \$250,000. The distribution represents reasonable penetration among businesses and farms of different sizes given the demographics of the area.

<b>Distribution of Small Business Loans and Small Farm Loans</b>				
<b>Revenue (in \$000's)</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>&lt;100</b>	18	28%	\$384,950	13%
<b>100-250</b>	21	33%	\$638,026	22%
<b>250-1,000</b>	25	39%	\$1,855,071	65%

**Geographic Distribution of Loans**

*The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.*

The following tables represent our sample of the distribution of home mortgage, small business, and small farm loans within the bank’s AA. Thirty-two percent of the geographies are moderate-income, 64% are middle-income, and 4% are upper income. This distribution is consistent with the demographic make up of the AA. Our sample revealed reasonable dispersion throughout the AA and that loans were made in a majority of the BNAs in the bank’s AA.

<b>Geographic Distribution of Loans</b>				
<b>Type of Loan</b>	<b>Moderate-Income</b>		<b>Middle-Income</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>Home Mortgage</b>	15	\$943,300	25	\$1,446,037
	38%	39%	62%	61%
<b>Small Business</b>	3	\$141,118	20	\$962,656
	13%	13%	87%	87%
<b>Small Farm</b>	0	\$0	41	\$1,774,273
	%	%	100%	100%
<b>COMBINED TOTAL</b>	17%	21%	83%	79%



<b>Geographic Distribution of Loans by Individual Geographies</b>						
	<b>Assessment Area</b>		<b>Assessment Area</b>		<b>Population</b>	<b>Percent of Population</b>
	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>		
BNA - County						
9556 - Ross	1	1%	68,000	1%	10,183	10%
9557 - Ross	4	4%	257,124	5%	4,207	4%
9558 - Ross	0	0%	0	0%	5,838	6%
9559 - Ross	0	0%	0	0%	4,299	4%
9568 - Ross	0	0%	0	0%	5,426	6%
9569 - Ross	1	1%	35,000	1%	3,944	4%
9858 - Fayette	7	7%	278,016	5%	3,563	4%
9859 - Fayette	1	1%	43,000	1%	3,845	4%
9860 - Fayette	2	2%	96,000	2%	3,683	4%
9861 - Fayette	1	1%	71,000	1%	3,779	4%
9862 - Fayette	3	3%	140,060	3%	4,527	5%
9863 - Fayette	4	4%	235,000	4%	3,895	4%
9864 - Fayette	9	8%	726,204	14%	4,174	4%
9544 - Highland	1	1%	10,250	<1%	3,771	4%
9545 - Highland	2	2%	175,000	3%	4,088	4%
9546 - Highland	11	10%	673,066	13%	3,776	4%
9547 - Highland	8	8%	128,397	2%	4,814	5%
9548 - Highland	7	7%	351,418	7%	3,962	4%
9549 - Highland	1	1%	80,000	2%	3,756	4%
9550 - Highland	3	3%	217,000	4%	2,809	3%
9551 - Highland	18	17%	774,494	15%	4,343	4%
9552 - Highland	20	19%	908,355	17%	4,409	5%
<b>TOTAL</b>	104 loans		\$5,267,384		97,091	100%

### **Responses to Complaints**

The bank has not received any complaints from the public regarding its performance in meeting the credit needs of the AA.

### **Other Considerations**

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.