



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 4, 2011**

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

The Peoples National Bank of New Lexington  
Charter Number 13596

110 North Main Street  
New Lexington, Ohio 43764

Office of the Comptroller of the Currency

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

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

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

The Peoples National Bank of New Lexington (PNB) has a **SATISFACTORY** record of meeting community credit needs.

- The distribution of loans reflects, given the demographics of the assessment area (AA), reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers.
- PNB's distribution of loans throughout geographies of different income levels, including moderate-income geographies continues to be reasonable.
- PNB is responsive to its community's credit needs as a majority of the loans in our sample were made inside the bank's AA.
- The bank's current and twenty-three quarter average loan-to-deposit ratios are reasonable and commensurate with those exhibited by local peer banks.

**SCOPE OF EXAMINATION**

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

The bank's performance in residential real estate and consumer lending is considered foremost in this CRA examination. The majority of the bank's lending is consumer loans by number and residential real estate loans by dollar. These two loan types are the bank's primary lending products as determined through discussions with management and review of the bank's data on loan originations during the evaluation period.

We sampled residential real estate and consumer loans originated from January 1, 2008 to December 31, 2010. To evaluate the levels of residential real estate lending and consumer lending, we selected a random sample of 20 loans per loan type (total of 40 loans) that were originated during the evaluation period. We used these files first to perform the analysis of Lending in the AA, then to perform the Borrower and Geographic Distribution analyses. In the Borrower and Geographic Distribution analyses, we disregarded any loans not originated in the AA. Additional loans originated within the AA were added to ensure the sample included at least 20 residential real estate and 20 consumer loans in the AA from the evaluation period. In addition, we conducted interviews with two individuals representing community organizations.

## DESCRIPTION OF INSTITUTION

PNB is a wholly owned subsidiary of Peoples National Bancshares, Inc, a one-bank intrastate holding company located in New Lexington, Ohio. The main office and one full-service branch are located approximately 50 miles southeast of Columbus, Ohio, in the City of New Lexington, Ohio, the Perry County seat. The other three full service offices are located in Junction City, Ohio, about five miles west of New Lexington; Thornport, Ohio, about 20 miles north of New Lexington; and Roseville, Ohio, about 15 miles northeast of New Lexington. PNB has never closed a branch. All offices contain an automated teller machine (ATM) to provide 24-hour banking. PNB also has two stand-alone ATMs in Perry County. One ATM is located in a New Lexington grocery store and another in a carryout store in Shawnee, Ohio.

The bank's primary business focus is retail banking and it offers traditional products and services to customers throughout their AA. The nearest competition comes primarily from a branch of a large multi-state bank, and a branch of a large community bank both located in New Lexington. Competition also comes from smaller community banks and branches of large banks located throughout the AA.

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 as of September 15, 2004.

As of December 2010, the bank's total assets are \$105.3 million, with Tier 1 capital of \$9.4 million and net loans approximating 77% of assets. Total loans represent 83% of deposits. The bank's primary loan products are loans for one-to-four family residential housing purposes and loans to individuals (consumer loans). The table below reflects the bank's total loans originated/purchased between January 1, 2008 and December 31, 2010.

<b>Table 1 - Primary Loan Types</b>		
<b>Loans Originated/Purchased from January 1, 2008 to December 31, 2010</b>		
<b>Loan Type</b>	<b>Percent by Number of Loans</b>	<b>Percent by Dollar of Loans</b>
Residential Real Estate (RE)Loans	18%	41%
Consumer Loans	65%	23%
Business Loans	4%	26%
Farm Loans	0%	0%
Other Loans	13%	10%
<b>TOTAL GROSS LOANS</b>	<b>100%</b>	<b>100%</b>

*Source: Internal bank reports, as of December 31, 2010.*

## DESCRIPTION OF ASSESSMENT AREA(S)

The bank currently has one AA, which contains nine census tracts (CT), including all six CTs located in Perry County, and three CTs adjacent to Perry County. These three CTs are located with one CT in each of the counties of Fairfield (west of Perry County), Muskingum (northeast of Perry County), and Morgan (east of Perry County). The Fairfield County CT is in the Columbus Metropolitan Statistical Areas (MSA). The bank also does not have any branches in Fairfield County. For analytical purposes, we included the Fairfield County CT in our non-metropolitan statistical area (non MSA) AA because it is adjacent to the Non-MSA AA and does not extend substantially beyond the non-MSA AA boundaries. The bank's AA completely surrounds the bank's offices, meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies.

According to 2000 Census data, the AA consists of one moderate CT in Perry County and eight middle-income CTs. The moderate-income CT is in Perry County. The 2000 census data shows the AA having a total population of 48,631. The AA has a median family income of \$40,645 and contains about 13,562 families. The Department of Housing and Urban Development's (HUD) updated estimate of the Ohio statewide non-MSA median family income was \$51,600 for 2008, \$53,800 for 2009, and \$55,356 for 2010. Of the AA's 20,154 housing units, approximately 72% are owner occupied. The average median housing value is \$75,608. Approximately 7% of the AA's households live below the poverty level. The table below summarizes the AA's income composition by families and geographies based on the 2000 census data.

<b>Families, Households &amp; Geographies</b>	<b>Low-Income</b>		<b>Moderate-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
Families	2,870	21.16%	3,052	22.50%	3,457	25.49%	4,138	30.85%
Households	4,372	24.43%	3,403	19.02%	3,806	21.27	6,312	35.28%
Census Tracts	0	0%	1	11%	8	89%	0	0%

*Source: Loan Sample, 2000 U.S. Census Data updated for 2010*

The overall economic condition in the AA is weak, with unemployment in Perry County of 13.0% as of February 2011. Unemployment has historically been and continues to be significantly above the state and national levels of 9.2%, and 8.9%, respectively, as of December 2010. Primary industries include local government, manufacturing, and retail trade. Current large employers include Perry County Government, the New Lexington, Northern, Southern, and Crooksville Board of Education, Buckingham Coal, CerCo LLC, Cooper-Standard Automotive, Eclipse Aluminum Trailer LLC, Ludowici Roof Tile, PCC Airfoils LLC, and Shelly Materials Inc. The number of businesses that provide jobs to the area has declined 15% and the number of jobs has declined 11% since 2004. Despite the decline in both businesses and jobs, there continues to be areas of job growth include the mining industry, professional services, education and health services, hospitality, and local government.

PNB currently holds about 26% of all AA deposits, which makes it the largest holder of AA deposits according to the June 30, 2010 FDIC market share report. Overall competition for loans and deposits within the bank's marketing area has declined. Prior primary competition came from National City bank, which merged with PNC bank. Currently, PNC bank reportedly is not offering promotional rates and is not competitive in the local market. Other competition comes from smaller, similarly situated community institutions.

Per two community contacts interviews, economic development remains a challenge due to the location, poor infrastructure, and lack of local medical care in Perry County. The county has no hospital or urgent care facility and has only one mile of four-lane highway. The county also must import water from Athens County and Licking County to meet its demand. Perry County continues to lack affordable (starter) housing units given the significant increase in housing costs. The community contacts could not identify any specific credit products or services that were needed and not adequately offered, and knew of no areas that were significantly underserved for credit-related products. Discussions also indicated that opportunities for participation from area institutions in any type of low- and/or moderate- income sponsored programs are very limited.

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

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

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

The bank's loan-to-deposit (LTD) ratio is reasonable. PNB's average LTD ratio for the past 23 quarters is 89.08%. PNB's LTD ratio was 83.34% as of December 31, 2010. Slowly increasing deposits and declining net loans and leases since 2008 caused an overall declining trend in the LTD ratio.

Both the bank's current and average LTD ratios were compared to a custom peer group consisting of six banks of similar asset size (less than \$200 million), which are located in the bank's AA. The LTD ratio for the six similarly sized community banks in the bank's AA, as of December 31, 2010, ranged from 60.50% to 75.60%. The LTD ratio for the same six banks over the last 23 quarters ranged from 58.45% to 90.51%. Both the bank's average LTD ratio and the LTD ratio at December 31, 2010, compare favorably to the peer group.

### Lending in Assessment Area

The bank’s record of lending within the AA is reasonable. A sample size of 20 consumer loans and 20 1-4 family real estate loans originated between 2008 and 2010 were reviewed to determine the bank’s level of lending inside the AA. The bank originates the majority of their retail loans within the identified AA. Table 3 details the bank’s lending activity within the AA by number and dollar volume based on the loan sample.

<b>Table 3 – Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
					(1,000s)		(1,000s)		(1,000s)	
Consumer	18	90%	2	10%	20	\$199	90%	\$22	10%	\$221
Residential RE	19	95%	1	5%	20	\$1,794	93%	\$126	7%	\$1,920
Totals	37	93%	3	7%	40	\$1,993	93%	\$148	7%	\$2,141

Source: Loan Sample, 2000 U.S. Census data updated for 2010.

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

The distribution of residential real estate and consumer lending in the AA reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers, and supports overall satisfactory performance.

The distribution of residential real estate lending reflects reasonable penetration among individuals of different incomes including low- and moderate-income borrowers, and supports overall satisfactory performance. The residential real estate loan sample reflects penetration in all income categories. Lending to low-income borrowers is significantly less than the percentage of low-income families within the AA; however, lending to moderate-income borrowers is significantly higher than the proportion of moderate-income families in the AA. A factor contributing to the low level of penetration to low-income borrowers is that 9.56% of the families in this AA are living below the poverty level and may not meet the credit standards for home mortgage loans. Another contributing factor is the high unemployment rate of 13.0% for Perry County compared to the overall unemployment rate in the state of Ohio of 9.2%. The AA also contains a high level of rental units and mobile homes; 16.86% of the total occupied housing units are rental units and 18.08% of the total occupied housing units are mobile homes. See Table 4 below for additional details on the bank’s residential real estate lending.

<b>Table 4 – Borrower Distribution of Residential Real Estate Loans in 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
Residential RE	21.16%	10%	22.50%	40%	25.49%	20%	30.85%	30%

Source: Loan Sample, 2000 U.S. Census Data updated for 2010.

The distribution of consumer lending reflects reasonable penetration among individuals of different incomes and supports the bank's overall satisfactory performance. Lending to low-income borrowers is slightly less than the percentage of low-income households in the AA. However, the distribution of lending to moderate-income borrowers was significantly higher than the distribution of moderate-income households in the bank's AA. Refer to Table 4A below for additional details on the bank's consumer lending.

Table 4A - Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.43%	20%	19.02%	50%	21.27%	10%	35.28%	20%

Source: Loan Sample, 2000 U.S. Census Data updated for 2010.

### Geographic Distribution of Loans

The bank's distribution of loans throughout geographies of different income levels, including low- and moderate-income geographies, reflects reasonable dispersion and meets the standards for satisfactory performance. The analysis shows that the bank is lending in all tracts in its AA. The bank does not have any low- or upper-income CTs in its AA.

The analysis below in Table 5 details the bank's residential real estate lending activity in the different income geographies for the identified AA. The bank's real estate lending in the one moderate-income geography equals the percentage of owner-occupied housing in the moderate-income CT and reflects reasonable dispersion.

Table 5- Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	0%	0%	10%	10%	90%	90%	0%	0%

Source: Loan Sample, 2000 U.S. Census Data updated for 2010.

The analysis in Table 5A details the bank's consumer lending activity in the different income geographies for the identified AA, which is less than reasonable. The bank did not have any lending activity in the moderate-income CT during the evaluation period based on our 20-item loan sample. However, internal lending reports provided by bank personnel show that there was some consumer lending activity in the moderate-income CT with 12 consumer loans originated in 2010, and 14 loans originated in 2009. A factor contributing to the low level of penetration in this CT is that it is adjacent to Muskingum County where there is heavy competition. There are 10 banks within 10

miles of the bank branch location in the moderate-income CT. The branch of PNB in Roseville was also a former branch of the competition and many of the people in that area are loyal to their local or large multi-state banks.

<b>Table 5A - Geographic Distribution of Consumer Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	11%	0%	89%	100%	0%	0%

*Source: Loan Sample, 2000 U.S. Census Data updated for 2010.*

### **Responses to Complaints**

PNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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