



PUBLIC DISCLOSURE

April 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Somerville National Bank
Charter Number 9859

Main & Church
Somerville, OH 45064

Office of the Comptroller of the Currency

West Lake Center
4555 Lake Forest Drive, Suite 610
Blue Ash, OH 45242-3760

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

Somerville National Bank (“SNB” or “the bank”) exhibits a satisfactory record of meeting the community’s credit needs.

- Lending to borrowers of different income levels and businesses of different sizes reflects excellent penetration.
- SNB is responsive to its community’s credit needs as a majority of the bank’s lending activity occurs inside its assessment areas (AA).
- SNB’s twenty-eight quarter average and current loan-to-deposit (LTD) ratios are reasonable.

SCOPE OF EXAMINATION

Our office conducted a full scope Community Reinvestment Act (CRA) examination to assess the bank’s record of meeting the credit needs of its entire community, including low- and moderate-income areas. We used small bank examination procedures to evaluate the bank’s performance.

We considered the bank’s performance in residential real estate and business (i.e., commercial and commercial real estate) lending foremost in this CRA examination. These loan types are the bank’s primary lending products as determined through discussions with management and our review of the volume of the bank’s loan originations during the evaluation period. The evaluation period is January 1, 2009 through December 31, 2011. We used data that the bank reported for residential real estate loans under the Home Mortgage Disclosure Act (HMDA) and sampled business loans originated during the evaluation period. We tested a sample of HMDA loans to confirm the accuracy and reliability of the HMDA data.

To perform our analysis of lending inside the AA, we randomly sampled 20 business loan originations and used all the bank’s residential real estate loan originations reported on the HMDA loan application register for the evaluation period. To perform our analysis of borrower and geographic distributions, we removed any loans in the original sample that were outside the AA. We selected additional business loans located inside the AAs as necessary to ensure we used at least 20 loans from each AA; we used all of the residential real estate loans made in the AAs that were reported on the HMDA loan application register. We conducted separate analyses for each AA based on the availability of census and loan data. We used the 2000 census data to analyze performance, updated as of 2011.

SNB has designated two AAs, as detailed under the **Description of Assessment Areas** section. For analysis purposes, we conducted full scope reviews of both AAs.

DESCRIPTION OF INSTITUTION

SNB is an independent community bank, based in Somerville, Ohio. The main office is located in Butler County, approximately 40 miles north of Cincinnati. SNB has six full-service offices located in Butler and Preble counties in middle-income census tracts (CTs). The Oxford and Hamilton branches are adjacent to moderate-income CTs. The bank has drive-through facilities

at five offices. Additionally, SNB has five ATMs, which includes one ATM at four branches and one ATM at the Kettering Medical Center.

SNB's market area consists of a mix of suburban and rural areas. Competition in the bank's AAs is strong.

SNB offers standard lending and deposit products to accommodate the needs of its customers within its AAs. As of March 31, 2013, SNB reported total assets of \$178 million and Tier 1 capital of \$17.7 million, or 10 percent of total assets. For the same period, the bank's loan portfolio totaled \$95 million, with net loans representing 53 percent of total assets. As illustrated in Table 1 and 1A below and through discussions with management, the bank's primary lending products are residential real estate, and business (commercial and commercial real estate) loans. The bank's information for real estate loan originations during the review period included all loans secured by real estate, i.e. residential, commercial, and farmland. Therefore, to determine the bank's primary products, we assessed the bank's total outstanding loan balances reported on the March 31, 2013 Consolidated Reports of Condition and Income (call report). As of March 31, 2013, home loans represented 48 percent, and commercial loans, including commercial real estate loans, represented 31 percent of the bank's total outstanding loans by dollar volume. By number, installment loans represented 22 percent of originated loans, but only 3 percent of the dollar volume originated during the evaluation period. The bank sells a majority of the residential real estate fixed-rate loans to the secondary market; as noted in Table 1, SNB sold approximately 34 percent by dollar volume of loans originated during the evaluation period. These loans are a primary product for SNB and were included on the HMDA loan application register.

Since the previous CRA examination in March 2006, SNB sold the Edinburgh, Indiana Branch to Mutual Savings Bank in 2007. The bank changed the location of the Camden Branch in 2008; however, the branch remained in the same census tract. In addition, SNB bought a mortgage-loan production center in 2006, which is located in Indiana. SNB has no branches or deposit-taking ATMs located in Indiana, and as such, Indiana is not part of the AA for CRA purposes.

Table 1 – Loan Mix				
Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period		% by Number of Loans Originated/Purchased during evaluation period	
	\$000's	%	# of Loans	%
Real Estate Loans*	\$148,245	56%	1,361	41%
Installment Loans	\$8,486	3%	736	22%
Commercial Loans	\$7,604	3%	151	4%
Agricultural Loans	\$6,131	2%	150	4%
Single Pay Loans	\$2,814	1%	186	6%
FHLMC (sold loans)	\$89,804	34%	666	20%
Home Equity Lines of Credit	\$2,659	1%	92	3%
Total	\$265,743	100%	3,342	100%

*Real Estate loans include residential, commercial, and farmland.

Source: Bank's record of loans originated from 2009 through 2011.

Table 1A – Loan Mix based on March 31, 2013 Call Report Data		
Loan Type	\$ 000's	% by Dollar of Loans
Residential Real Estate Loans	\$45,607	48%
Commercial & Commercial Real Estate Loans	\$29,597	31%
Installment Loans	\$3,022	3%
Agricultural Loans	\$15,859	17%
Other Loans	\$1,124	1%
Total	\$95,209	100%

Source: Bank's March 31, 2013 Consolidated Reports of Condition and Income (call report).

Presently, there are no financial or legal impediments that affect SNB's ability to help meet the credit needs of its AAs. The bank's prior CRA examination in March 2006 resulted in a "Satisfactory" rating. Please refer to the following section for a description of the AAs and the bank's CRA Public File for additional information.

DESCRIPTION OF ASSESSMENT AREA(S)

SNB has designated two AAs (Butler County MSA AA and Preble County MSA AA) that consist of all the CTs in Butler and Preble counties in Ohio. The AAs are contiguous, meet the requirements of the CRA, and do not arbitrarily exclude any low- or moderate-income areas. Three offices are located in each AA, with a loan production office in Indiana.

Competition in the AAs is strong from local national banks, savings and loans, and branches of larger financial institutions. As of June 30, 2012, SNB had approximately a 15.41 percent share of the deposit market in Preble County and ranked second out of 11 financial institutions. For the same period, the bank had 1.89 percent share of the deposit market in Butler County and ranked 10th out of 20 financial institutions. Deposit market share information comes from the Federal Deposit Insurance Corporation (FDIC) June 30, 2012, Deposit Market Share Report.

Community contacts indicated that the AA's economy is improving. The credit needs of the AA include affordable housing and small business lending. According to the contacts, local financial institutions are meeting those needs.

The **Butler County MSA AA** is located in the Cincinnati-Middletown, OH-KY-IN Metropolitan Statistical Area (MSA) 17140 and consists of 73 CTs comprised of four low-income CTs (5%), 21 moderate-income CTs (29%), 31 middle-income CTs (43%), 16 upper-income CTs (22%), and one CT listed as no income (1%). The AA meets the requirements of the regulation. According to the 2000 census, the population of the AA is 332,807, with 3 percent of the population living in low-income CTs, 24 percent in moderate-income CTs, 39 percent in middle-income CTs, and 34 percent in upper-income CTs. Of the housing units in the AA, 68 percent are owner-occupied, with 1 percent located in low-income geographies, 18 percent located in moderate-income geographies, and the remainder in middle- and upper-income geographies. Of the households in the AA, 9 percent live below the poverty level, 24 percent receive social security benefits, and 2 percent receive public assistance. The median housing value for the county is \$117,403, and the average median age of housing stock is approximately 43 years. The weighted average monthly gross rent is \$561.

According to the 2000 U. S. Census, the Butler County MSA AA median family income is \$54,771. The HUD (Department of Housing and Urban Development) updated for 2011 estimate of the Butler County MSA AA median family income is \$70,400. Approximately 16 percent of the families in the AA are low-income and 19 percent are moderate-income.

According to Ohio Bureau of Labor Market Information as of March 2013, the unemployment rate in Butler County is 6.8 percent, which is lower than state and national levels of unemployment. The unemployment rate for the State of Ohio for March 2013 is 7.3 percent and the national rate is 7.6 percent.

According to bank management, the local economy is improving. The AA has a diverse employer base across many industries from manufacturing, government, and service industries. Several major employers in the AA include the Butler County Government, Liberty Mutual, AK Steel, GE Aviation, Cincinnati Financial Corporation, Miami University, and the local school districts.

The **Preble County MSA AA** is located in the Dayton, OH MSA 19380, consists of 10 middle-income CTs, and meets the requirements of the regulation.

According to the 2000 U.S. Census, the population of the AA is 42,337, with 100 percent of the population living in middle-income geographies. Of the housing units, 74 percent are owner-occupied. Of the households in the AA, 6 percent are living below the poverty level, 28 percent receive social security benefits, and 2 percent receive public assistance. The median housing value is \$98,015 and the average median age of housing stock is approximately 51 years. The weighted average monthly gross rent is \$498.

According to the 2000 U. S. Census, the Preble County MSA AA median family income is \$51,271. The HUD updated for 2011 estimate of the Preble County MSA AA median family income is \$62,400. Approximately 18 percent of the families in the AA are low-income and 23 percent are moderate-income.

According to Ohio Bureau of Labor Market Information, as of March 2013, the unemployment rate in Preble County is 7.7 percent, which is slightly higher than state and national levels of unemployment. According to bank management, the overall economic condition of the AA is stable. The primary sources of employment in Preble County include the agriculture industry as well as manufacturing and service industries. Major employers include Parker-Hannifin Corporation, Henny Penny Corporation, Neaton Auto Parts, Wal-Mart Stores, Inc. and International Paper Co.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

Loan-to-Deposit Ratio

- SNB's loan-to-deposit (LTD) ratio is reasonable and represents satisfactory performance.

SNB's average LTD ratio for the 28 quarters since the previous CRA examination of 72.69 percent is reasonable. As of March 31, 2013, SNB's LTD ratio was 61.17 percent. SNB's LTD ratio ranged from a high of 86.25 percent (June 30, 2006) to their low of 61.17 percent as of March 31, 2013. Our review of eight financial institutions headquartered within SNB's AAs revealed a range of average LTD ratios from 64.21 percent to 116.87 percent, with an overall average of 77.81 percent. Excluding the one outlier of 116.87 percent, the average over the 28 quarters for the peer institutions is 72.92 percent. Overall, SNB's ratios are satisfactory and commensurate with peer averages.

Lending in Assessment Area

- A majority of SNB's lending activity occurs inside the bank's AA and supports satisfactory performance.

We evaluated the bank's record of lending within its two AAs. Our analysis of the bank's lending included residential real estate loans (home purchase and refinance loans) and business loans (commercial and commercial real estate) as these are the bank's primary products. Our review revealed that from 2009 through 2011, the bank originated 59 percent of the number of all residential real estate and business loans within its AAs, which is a majority. Table 2 below details the bank's lending within the AA.

Loan Type	Number of Loans				Total	Dollars of Loans (in 000's)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Purchase	415	50%	407	50%	822	\$45,294	51%	\$44,303	49%	\$89,597
Home Refinance	494	67%	239	33%	733	\$61,066	62%	\$37,689	38%	\$98,755
Home Improvement	0	0%	1	100%	1	0	0%	\$3	100%	\$3
Business Loans	20	100%	0	0%	20	\$5,417	100%	\$0	0%	\$5,417
Totals	929	59%	647	41%	1,576	\$111,777	58%	\$81,995	42%	\$193,772

Source: HMDA loans originated from January 1, 2009 through December 31, 2011, and business loan sample with loans originated from January 1, 2009 through December 31, 2011.

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

- SNB's lending is excellent to borrowers of different income levels and businesses of different sizes.

Butler County MSA AA

Overall, SNB's record of lending to borrowers of different income levels and businesses of different sizes within the Butler County MSA AA is excellent and reflects outstanding performance.

The bank's distribution of residential real estate loans in the Butler County MSA AA reflects excellent penetration among borrowers of different income levels. Based on an analysis of all home loans originated in the AA during the evaluation period compared to the 2000 Census demographics, SNB's percentage of home purchase loans made to low-income (24 percent) and moderate-income borrowers (29 percent) is excellent when compared to the percentage of low-income (16 percent) and moderate-income (19 percent) families in the AA. The penetration for home refinance loans is reasonable for low-income borrowers (14 percent) when compared to the demographic comparator of 16 percent. Of the households in Butler County, 9 percent live below the poverty level, which may contribute to the lower penetration to low-income borrowers. These households may experience difficulty meeting the underwriting standards for home mortgage loans. The penetration for home refinance loans is excellent for moderate-income borrowers (19 percent) as it meets the demographic ratio (19 percent) of the area. The bank did not make any home improvement loans in the AA during the evaluation period. However, home improvement loans are not a primary product for the bank. Management reports that the borrowers who request home improvement related loans usually get home equity lines of credit or home equity loans. The bank made 304 residential real estate loans in the Butler County MSA AA during the evaluation period. See Table 3 for details.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	16%	24%	19%	29%	24%	29%	41%	18%
Home Refinance		14 %		19%		28%		39%
Home Improvement		*N/A		*N/A		*N/A		*N/A
*N/A – not applicable; not a primary product for the bank.								

Source: HMDA loans originated from January 1, 2009 through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

SNB's penetration of business loans in the Butler County MSA AA is excellent. Based on our sample, the bank made 75 percent of its business loans to businesses with annual gross revenues of less than \$1 million, which is significantly above the demographic comparator of 67 percent of similarly sized businesses in the AA. See Table 4 for details.

Table 4 – Borrower Distribution of Loans to Businesses in the Butler County MSA AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67%	3%	30%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	39%	61%	0%	100%

Source: Business loan sample with loans originated from January 1, 2009 through December 31, 2011 and Dunn and Bradstreet.

Preble County MSA AA

SNB’s record of lending to borrowers of different income levels and businesses of different sizes within the Preble County MSA AA is excellent.

The bank’s overall distribution of residential real estate loans in the AA reflects excellent penetration. SNB’s has a strong record of making home purchase loans to low-income (24 percent) and moderate-income (31 percent) borrowers compared to the number of low- and moderate-income families in the AA (18 percent and 23 percent, respectively). The penetration for home refinance loans is reasonable for low-income borrowers (13 percent) when compared to the demographic comparator of 18 percent and excellent for moderate-income borrowers (27 percent) as it exceeds the demographics (23 percent) of the area. Of the households in the AA, 6 percent live below the poverty level, which may contribute to the lower penetration to low-income borrowers. These households may experience difficulty meeting the underwriting standards for home mortgage loans. The bank did not make any home improvement loans in the AA during the evaluation period, but home improvement loans are not a primary product of the bank. The bank made 604 residential real estate loans in the Preble County MSA AA during the evaluation period. See Table 5 for details.

Table 5 – Borrower Distribution of Home Loans in the Preble County MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18%	24%	23%	31%	27%	23%	32%	22%
Home Refinance		13%		27%		28%		33%
Home Improvement		N/A		N/A		N/A		N/A

Source: HMDA loans originated from January 1, 2009 through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

SNB's penetration of business loans in the Preble County MSA AA is excellent. Based on our sample, the bank made 80 percent of their business loans to businesses with annual gross revenues of less than \$1 million, which significantly exceeds the demographic comparator of 71 percent of similarly sized businesses in the AA. See Table 6 for details.

Table 6 – Borrower Distribution of Loans to Businesses in the Preble County MSA AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	71%	2%	27%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	89%	11%	0%	100%

Source: Business loan sample with loans originated from January 1, 2009 through December 31, 2011 and Dunn and Bradstreet.

Geographic Distribution of Loans

- SNB's geographic distribution of loans reflects reasonable dispersion and supports satisfactory performance.

The bank made 49 percent of the its residential real estate loans during the evaluation period in the Preble County MSA AA, with 25 percent originated in the Butler County MSA AA and 26 percent originated outside of the AAs. The bank maintains a loan production office in Indiana, from which they originated a majority of the secondary market loans. The bank sold over 20 percent of the home mortgage loans originated during the evaluation period to the secondary market. We weighted residential real estate lending in the Preble County MSA AA more than the Butler County MSA AA due to the overall volume of loans originated in the Preble County MSA AA. The bank originated loans in all census tracts of the Preble County MSA AA. The bank's geographic distribution for business loans and home loans in the Butler County MSA AA reflected reasonable distribution.

Butler County MSA AA

The geographic distribution of home loans reflects poor dispersion in the Butler County MSA AA. However, the geographic distribution is reasonable when considering strong competition and the bank's branch proximity to the low- and moderate-income tracts. The bank made home loans in 1 low-income CT and in 10 moderate-income CTs during the evaluation period. Of the 73 CTs in the AA, four are low-income (5 percent) and 21 are moderate-income (29 percent). The low-income CTs are located within the cities of Oxford (1), Middletown (1), and Hamilton (2). Likewise, the moderate-income CTs are located in Oxford (1), Middletown (10), Hamilton (9), and Union Township (1). The bank does not have a branch presence in Middletown or Union Township where the majority of moderate-income census tracts are located.

During the evaluation period, SNB originated 1 percent of its home purchase loans in the Butler County MSA AA in low-income geographies, which is reasonable when compared with the demographic of 1 percent of the AA's owner-occupied units are in low-income CTs. The bank

did not originate any refinance loans in low-income CTs, which is reasonable given the low percentage of owner-occupied units in low-income CTs. The bank's geographic distribution for home loans in moderate-income geographies is significantly less than the percentage of owner-occupied units in the moderate-income geographies. The bank originated 7 percent of the home purchase loans and 6 percent of the refinance loans in moderate-income CTs, which is poor penetration when compared with the demographic of 18 percent of the AA's owner occupied units are in moderate-income CTs. See Table 7 for details.

We considered other factors that may limit home loan opportunities in low- and moderate-income areas. As noted above, the bank does not have a branch presence in Middletown or Union Township where over half of the moderate-income tracts are located. Additionally, nearly 50 percent of families in the low- and moderate-income areas live below the poverty level and may have difficulty meeting underwriting standards for home loans. Furthermore, bank management reports that overall loan demand has been low due to the state of the economy and competition for loans in the AA continues to be strong.

We found no evidence that the bank is excluding low- or moderate-income individuals or geographies.

Table 7– Geographic Distribution of Home Loans in the Butler County AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	1%	1%	18%	7%	44%	73%	37%	19%
Home Refinance		0%		6%		79%		15%
Home Improvement		N/A		N/A		N/A		N/A

Source: HMDA loans originated from January 1, 2009 through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

The geographic distribution of business loans in the Butler County MSA AA is reasonable. The bank did not make any business loans in low-income geographies, however only two percent of the businesses in the AA are located in low-income CTs. The bank's percentage of business loans in moderate-income geographies (25 percent) exceeds the percentage of businesses located in moderate-income geographies (21 percent), which reflects excellent dispersion in these geographies. See Table 8 for details.

Table 8 – Geographic Distribution of Loans to Businesses in the Butler County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans	% of AA Businesses	% Number of Loans
Business Loans	2%	0%	21%	25%	40%	70%	37%	5%

Source: Business loan sample with loans originated from January 1, 2009 through December 31, 2011 and Dunn and Bradstreet.

Preble County MSA AA

The Preble County MSA AA does not contain any low- or moderate-income census tracts; therefore, analysis of geographic distribution of this AA would not be meaningful. SNB originated home purchase and refinance loans in all census tracts in the AA.

Responses to Complaints

SNB has not received any complaints about its performance in helping to meet the credit needs in its assessment areas during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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