



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 5, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Blanchester
Charter Number 8588

121 East Main Street
Blanchester, Ohio 45107

Office of the Comptroller of the Currency

Central Ohio Field Office
West Lake Center
4555 Lake Forest Drive, Suite 610
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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 First National Bank of Blanchester (FNB) 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. The bank originated a majority of their consumer loans in our sample to low- and moderate-income borrowers, at 35% and 30% respectively, which is substantially higher than the proportion of households in the AA. FNB also made a reasonable volume of the residential real estate loans in our sample to low- and moderate-income borrowers.
- FNB 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 FNB'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, 2007 through year-to-date September 30, 2009 (evaluation period) to perform the evaluation.

The bank's performance in residential real estate and consumer lending is considered foremost in this CRA examination. These are the bank's primary lending products as determined through discussions with management and review of the bank's loan originations during the evaluation period and outstanding loan balances at September 30, 2009.

We sampled residential real estate and consumer loans originated from January 1, 2007 to September 30, 2009. To evaluate the levels of residential real estate lending and consumer lending, we selected a random sample of 20 loans per loan type 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 Distribution analysis. In the Borrower Distribution analysis, 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.

DESCRIPTION OF INSTITUTION

FNB is a \$48 million financial institution which is wholly owned by First Blanchester Bancshares, Inc., a one-bank holding company. Both the bank and holding company are located in Blanchester, Ohio, approximately 30 miles northeast of Cincinnati, Ohio.

The bank has one office with a drive-up facility, and does not have any automatic teller machines (ATM). The bank is located in Census Tract 9949, a middle-income geography.

FNB's primary business strategy is lending to individuals (residential real estate and small consumer loans). The bank offers a variety of standard lending products and services through their full service main office to accommodate the credit needs of borrowers throughout their AA. Competition consists primarily of a branch of a larger community bank and a savings and loan institution in a local grocery store.

Currently, there are no legal or economic impediments that exist that could restrict the institution's ability to serve the community's credit needs. FNB's prior CRA rating as of April 5, 2004, was "Satisfactory Record of Meeting Community Credit Needs."

As of September 30, 2009, FNB reported total assets of \$48 million and gross loans of \$34 million, per internal bank reports. Net loans to total assets were 71% as of September 30, 2009. The bank's primary loan products are loans for one-to-four family residential housing purposes and loans to individuals (consumer loans). Blanchester is a bedroom community of Cincinnati and Wilmington, and local commercial lending opportunities are limited. The table below reflects the bank's total loans originated/purchased between January 1, 2007 and September 30, 2009.

Table 1 - Primary Loan Types		
Loans Originated/Purchased from January 1, 2007 to September 30, 2009		
Loan Type	Percent by Number of Loans	Percent by Dollar of Loans
Residential Real Estate Loans	16%	59%
Consumer Loans	80%	28%
Business Loans	2%	10%
Farm Loans	1%	1%
Other Loans	1%	2%
TOTAL GROSS LOANS	100%	100%

Source: Internal bank reports, as of September 30, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB is located in Blanchester, Ohio in Clinton County. The bank has currently designated two AAs. The major, primary AA consists of three census tracts in the southwest section of Clinton County (Non-MSA AA). The second AA contains one census tract (324) in the southeastern corner of Warren County that is contiguous to Clinton County (MSA AA). Warren County is part of the Cincinnati-Middletown OH-KY-IN Metropolitan Statistical Area (MSA 17140). Census tracts 9948, 9949, and 9950 in Clinton County include the villages of Blanchester, Midland, Clarksville, and Martinsville, Ohio. Census Tract 324 includes the villages of Pleasant Plain and Butlerville, Ohio. The bank does not have a branch located in the MSA AA. For analytical purposes, we combined the two AAs because the one census tract in Warren County is adjacent to the non-MSA portion and does not extend substantially beyond the non-MSA

boundaries, and there is no branch in the MSA AA. Management selected their AA based on the bank's targeted lending territory and office location. The AA meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies.

The bank's AA is comprised of middle-income geographies. Based on the 2000 U.S. Census Data, the AA contains a population of approximately 17,282 people. The AA contains 6,693 total housing units, and approximately 75% are owner-occupied. The median housing value is \$103,387 with an average age of housing stock over 30 years. Approximately 8.62% of the households in the AA live below the poverty level.

According to U.S. Census information, which is based on 2000 income data and updated in 2004 to reflect geography revisions, the Ohio non-MSA median family income is \$43,801 and the Cincinnati MSA median family income is \$54,771. The Department of Housing and Urban Development's (HUD) updated estimate of the Ohio statewide non-MSA median family income was \$50,000 for 2007, \$51,600 for 2008 and \$53,800 for 2009. The HUD's updated estimates for the Cincinnati MSA median family income was \$63,600 for 2007, \$66,200 for 2008, and \$69,200 for 2009.

See the table below for the distribution of families and households in the AA by income category and the number of geographies/census tracts in low-, moderate-, middle-, and upper-income areas.

Families, Households & Geographies	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
Families	665	13.55%	764	15.57%	1,304	26.57%	2,175	44.31%
Households	1,066	17.04%	883	14.11%	1,332	21.29%	2,975	47.56%
Census Tracts					4	100%		

Source: 2000 U.S. Census Data, updated as of 2009.

The overall economic condition of the AA has declined since the last CRA examination, with higher than average unemployment rates in Clinton and Warren counties. The AA is primarily rural with manufacturing as the major industry. The largest employers in the bank's AA continue to include American Showa and the Blanchester School System. Many residents also commute to Cincinnati or Wilmington to work. The unemployment rate for Clinton County was 14.5% as of August 2009, which compares unfavorably to state and national unemployment rates of 10.8% and 9.7%, respectively. The unemployment rate in Warren County was 9.2% as of August 2009, which compares favorably to state and national levels. A major employer in Clinton County closed (DHL) within the last year and has adversely impacted the county's unemployment rate. However, the closure of DHL has not significantly impacted the bank's customers, per discussion with bank management. FNB had approximately 7.40% of Clinton County's market share of total deposits as of June 30, 2008 (1.54% of Clinton and Warren County's combined market share of total deposits as of June 30, 2008).

Competition is strong within the AA and comes primarily from a branch of a larger community bank and a savings and loan financial institution. The bank's primary competitors, per discussion with bank management, are National Bank & Trust Company and NCB Bank (located in Kroger).

A community contact interview revealed that the economic condition of Clinton County has declined over the last couple years. The contact identified home mortgage and auto loans as the primary credit needs of the AA. According to the contact, these types of loans are available from area financial institutions.

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

FNB's loan-to-deposit (LTD) ratio is reasonable and supports satisfactory performance. The average LTD ratio over the last 23 quarters since the prior CRA examination (January 1, 2004 – September 30, 2009) of 66.83% is reasonable. In fact, the average LTD ratio has improved considerably since last CRA examination, when it was 51.49%. Since the prior CRA examination, management has aggressively increased loan volume, as reflected by the September 30, 2009 LTD ratio of 85.97%.

For analysis purposes, FNB's current and 23-quarter average LTD ratios were compared with a custom peer group consisting of two banks of similar size and purpose (total assets of approximately \$100 million) competing within the same AA. FNB's June 30, 2009 LTD ratio of 84.16% compares favorably to the June 30 LTD ratios of each peer, which were 70.21% and 74.28%. FNB's 23-quarter average LTD ratio is lower than the 22-quarter averages (through June 30, 2009) of its respective peers, at 76.90% and 76.51%. However, the lower average LTD ratio is reflective of lower loan volume in past years. The current LTD ratio of 85.97% is more indicative of management's present lending strategy.

Lending in Assessment Area

The bank's record of lending within the AA is reasonable and supports satisfactory performance. The bank's primary loan types consist of residential real estate and consumer loans. We sampled twenty loans from each of the primary loan types during the evaluation period. Table 3 details the bank's lending within the AA by number and dollar volume. The table indicates that a majority of the loans in our sample were made inside the bank's AA.

Table 3 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	16	80%	4	20%	20	\$974	65%	\$521	35%	\$1,495
Consumer Loans	10	50%	10	50%	20	\$112	57%	\$86	43%	\$198
Totals	26	65%	14	35%	40	\$1086	64%	\$607	36%	\$1,693

Source: Loan Sample

Lending to Borrowers of Different Incomes

The distribution of residential real estate and consumer lending 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 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 8.62% of the families in this AA are living below the poverty level (over half the low-income families in the AA) and may not meet the credit standards for home mortgage loans. There is also a high level of rental units and mobile homes in the AA; 18.63% of the total occupied housing units are rentals and 10.23% of the total occupied housing units are mobile homes. See Table 4 below for additional details on the bank's residential real estate lending.

The distribution of consumer lending reflects excellent penetration among individuals of different incomes, including low- and moderate-income borrowers, and supports the bank's overall satisfactory performance. Distribution of lending to low- and moderate-income borrowers in our sample was nearly double the distribution of those households in the bank's AA. Thirty-five percent of the loans in our sample were made to low-income borrowers, who make up just over 17% of the households in the AA. Thirty percent of the loans in our sample were made to moderate-income borrowers, who make up 14% of the AA households. Refer to Table 5 below for additional details on the bank's consumer lending.

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
Residential Real Estate Loans	13.55%	5%	15.57%	20%	26.57%	20%	44.31%	55%

Source: Loan Sample; 2000 U.S. Census Data, updated as of 2009.

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	17.04%	35%	14.11%	30%	21.29%	15%	47.56%	20%

Source: Loan Sample; 2000 U. S. Census Data, updated as of 2009.

Geographic Distribution of Loans

Given there are no low- or moderate-income census tracts within the bank's AA, analysis of the bank's geographic distribution of lending is not meaningful. All of the geographies in the bank's AA are middle-income geographies. Our loan samples revealed reasonable dispersion throughout the AA as loans were made in all geographies in the bank's AA.

Responses to Complaints

FNB 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.