



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 26, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Nelsonville
Charter Number 14473**

**11 Public Square
Nelsonville, Ohio 45764**

**Comptroller of the Currency
Central Ohio Field Office
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.

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 an 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 CRA Performance of The First National Bank of Nelsonville prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of January 26, 2004. The agency rates the CRA performance of an institution consistent with provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING:

This institution has a *Satisfactory* record of meeting community credit needs. This rating is supported by:

- The distribution of the bank's lending activities reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers.
- The geographic distribution of lending activity reflects reasonable dispersion to all geographies, including low- and moderate-income areas.
- The bank's loan-to-deposit ratio is more than reasonable when compared with similarly situated banks.

DESCRIPTION OF INSTITUTION

The First National Bank of Nelsonville (FNB) is a wholly owned subsidiary of a one-bank holding company, First National Bancshares. FNB is the holding company's only subsidiary. Both the holding company and the main office of FNB are headquartered in the city of Nelsonville, Ohio. Nelsonville is in the Appalachian Region of Southeast Ohio, about 65 miles southeast of Columbus, Ohio. The bank also operates one full service branch in the village of Glouster, Ohio, about 10 miles northeast of Nelsonville. Both of these offices are located in Athens County, and both are in moderate-income areas. The bank offers standard retail and commercial banking products and services in both office locations. The bank has two off-premise automatic teller machines (ATMs), both located in moderate-income areas. One is located in a grocery store in the city of Nelsonville, and another one is located in a convenience store in the village of Buchtel.

On its September 30, 2003 Call Report, FNB reported total assets of \$53 million with net loans representing 91% of that asset base. Based on dollar amount, residential real estate loans accounted for 85% of the bank's loan portfolio, consumer loans represented 9%, and commercial and commercial real estate loans totaled 6%.

At the prior CRA examination, as of July 6, 1998, the bank received a satisfactory CRA rating. No legal or financial impediments exist that could restrict the bank's ability to serve the community's credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) consists of Athens County, excluding the extreme southeast portion of the county, all of Vinton County, the eastern two-thirds of Hocking County, southern Perry County, and eastern Morgan County, all which are contiguous counties not in a Metropolitan Statistical Area (MSA). The AA meets the requirements of the regulations and does not arbitrarily exclude any low- or moderate-income area. We used demographic data based on the 1990 Census assessing your CRA performance through December 31, 2002. Demographic data based on 2000 Census information was used to evaluate your CRA performance in 2003. We used demographic information from both the 1990 and 2000 censuses. Therefore, we have included two sets of demographic data in this evaluation.

Demographic information based on the 1990 Census –

The AA contained 26 block numbering areas (BNA) of which one (3.85%) is designated low-income, 14 (53.84%) are moderate-income, nine (34.62%) are middle-income, and two (7.69%) are upper-income. The Department of Housing and Urban Development (HUD) 2002 estimated median family income for non-MSA areas of Ohio was \$48,700. Of all families living in this AA, 27.39% were classified as low-income, 21.06% were classified as moderate-income, 22.46% were classified as middle-income, and 29.09% were classified as upper-income. Of all the households in this AA, 33.95% were classified as low-income (with 23% living below the poverty line), 17.61% were classified as moderate-income, 18.34% were classified as middle-income, and 30.10% were classified as upper-income. This AA had a population of 109,702,

with 43,057 housing units, of which 62% were owner occupied. The median housing value was \$42,825.

1990 Census Assessment Area Demographic Information				
<i>Income Designation</i>	<i>AA BNAs</i>		<i>Families in AA</i>	<i>Households in AA</i>
	<i>(Number)</i>	<i>(Percentage)</i>	<i>(Percentage)</i>	<i>(Percentage)</i>
Low	1	3.85%	27.39%	33.95%
Moderate	14	53.84%	21.06%	17.61%
Middle	9	34.62%	22.46%	18.34%
Upper	2	7.69%	29.09%	30.10%

Source: 1990 U.S. Census Data

Demographic information based on the 2000 Census –

The AA contains one (3.57%) low-income BNA, nine (32.14%) moderate-income BNAs, 15 (53.58%) middle-income BNAs, and three (10.71%) upper-income BNAs for a total of 28 geographies. The HUD estimated 2003 median family income for non-MSA areas of Ohio is \$50,600. Of all the families living in this AA, 25.38% are classified as low-income, 20.43% are classified as moderate-income, 22.96% are classified as middle-income, and 31.23% are classified as upper-income. Of all the households living in this AA, 32.95% are classified as low-income (with 22% living below the poverty line), 18.09% are classified as moderate-income, 18.61% are classified as middle-income, and 30.34% are classified as upper-income. This AA has a population of 117,361, with 49,299 housing units, of which 60.48% are owner occupied. The median housing value is \$73,359.

2000 Census Assessment Area Demographic Information				
<i>Income Designation</i>	<i>AA BNAs</i>		<i>Families in AA</i>	<i>Households in AA</i>
	<i>(Number)</i>	<i>(Percentage)</i>	<i>(Percentage)</i>	<i>(Percentage)</i>
Low	1	3.57%	25.38%	32.96%
Moderate	9	32.14%	20.43%	18.09%
Middle	15	53.58%	22.96%	18.61%
Upper	3	10.71%	31.23%	30.34%

Source: 2000 U.S. Census Data

The current economic conditions of the AA are considered distressed. The AA has never fully recovered from the mining industry significantly reducing its operations in this AA, according to a local government leader. As of December 2003, the unemployment rates for each of the counties in the AA are as follows: Athens 5.0%, Hocking 7.6%, Morgan 16.9%, Perry 8.5%, and Vinton 11.4%. These unemployment rates compare unfavorably to the State of Ohio average unemployment rate of 6.0% and the U.S. national unemployment rate of 5.7% for December 2003. The largest employers in the AA include Ohio University, O'Bleness Memorial Hospital, and Hocking Technical College in Athens County; Smead Manufacturing Company and Arnanda Bent Bolt Company in Hocking County; American Electric Power and Central Ohio Coal Company in Morgan County; Lempco Industries, Inc. in Perry County; and several logging companies in Vinton County.

Competition is strong, and comes from five community banks headquartered throughout the bank's AA and branches of five larger banks.

A discussion with a local government leader indicated that community credit needs for home purchasing and remodeling are being met by the local financial institutions. One of the challenges of this community is meeting the funding needs of the significant portion of the population on a fixed income (24% of the population received Social Security as of the 2000 Census). The local government leader stated that this segment of the population has barely enough money for basic necessities, and cannot afford any additional expenses such as a loan payment. The local government leader further mentioned that state and federal grants help to provide for and meet this need for basic necessities.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is more than reasonable. Over the last 21 quarters since the prior CRA examination, the bank's quarterly LTD ratio averaged 88%. This is well above the average LTD ratio of 68% exhibited by similarly situated banks over the same time period. Similarly situated banks in this evaluation are defined as all commercial banks in the State of Ohio with average assets less than \$100 million, a residential loan portfolio (secured by 1-4 family residential properties) greater than 60% of its total loan portfolio, and two or less branches.

Lending in Assessment Area

Lending in the bank's assessment area is reasonable. The bank makes a majority of its loans in its AA. The bank's primary loans types are loans secured by 1-4 family residential properties and consumer loans. We randomly sampled a total of 20 loans originated since the last CRA examination from those two primary loan types with more emphasis place on loans secured by 1-4 family residential loans. Out of those 20 loans, the bank made 19, or 95%, in its AA. Based on the dollar amount of these loans, the bank made 94% in its AA. This is consistent with performance for other small community banks.

Loan Sample and Effect on Conclusions

Because our sample of loans included loans originated in 2003 and prior to 2003, we used two sets of demographic information, one from the 1990 Census and one from the 2000 Census, to perform our analysis. For review and presentation purposes, we separated the loan samples into loans originated prior to 2003 and loans originated in 2003. However, in analyzing the information and determining an overall conclusion in each of the two following performance

criteria, we considered the bank's lending activity as a whole as opposed to segregating the conclusions.

Lending to Borrowers of Different Incomes

The bank's lending to borrowers of different income levels, including low- and moderate-income, is reasonable. Based on the analysis, the bank is meeting the community credit needs for home purchasing. In determining the overall conclusion for this performance criterion, greater weight was given to the sample of 1-4 Family Residential Loans as that loan segment encompasses 85% of the bank's loan portfolio (as of September 30, 2003).

Borrower distribution for loans secured by 1-4 family residential loans is reasonable. Based on the combined review period (2001-2003), the bank's lending to moderate-income borrowers closely approximates the percentage of moderate-income families in the AA. Based on the combined review period (2001-2003), the bank's lending to low-income borrowers is less than the percentage low-income families in the AA. This lower penetration to low-income borrowers is reasonable given the fact that 16% (based on 1990 Census) and 13% (based on 2000 Census) of the families in this AA live below the poverty line and would likely not meet the credit standards for home mortgage loans.

Borrower distribution for consumer loans is reasonable. For all periods reviewed (2001-2003), the bank's lending to low-income borrowers closely approximates the percentage of low-income households in the AA. Based on the combined review period (2001-2003), the bank's lending to moderate-income borrowers exceeds the percentage of moderate-income households in the AA.

The following tables provide detail on the bank's distribution by borrower income for each loan type analyzed.

<i>Distribution of 1-4 Family Residential Loans by Borrower Income using sample of loans from 2001 and 2002 (sample size 20 loans for \$1,228,870)</i>			
<i>Borrower Income Level</i>	<i>Percentage of families by income category in the AA – per 1990 Census</i>	<i>Percentage of loan sample to borrowers in each income category (Number of Loans)</i>	<i>Percentage of loan sample to borrowers in each income category (\$ Amount of Loans)</i>
Low-income	27.39%	5.00%	6.18%
Moderate-income	21.06%	35.00%	23.00%
Middle-income	22.46%	25.00%	29.23%
Upper-income	29.09%	35.00%	41.59%

Source: 1990 U.S. Census Data

Distribution of 1-4 Family Residential Loans by Borrower Income using sample of loans from 2003 (sample size 20 loans for \$1,271,105)			
<i>Borrower Income Level</i>	<i>Percentage of families by income category in the AA – per 2000 Census</i>	<i>Percentage of loan sample to borrowers in each income category (Number of Loans)</i>	<i>Percentage of loan sample to borrowers in each income category (\$ Amount of Loans)</i>
Low-income	25.38%	25.00%	16.87%
Moderate-income	20.43%	10.00%	5.22%
Middle-income	22.96%	20.00%	19.65%
Upper-income	31.23%	45.00%	58.26%

Source: 2000 U.S. Census Data

Distribution of Consumer Loans by Borrower Income using sample of loans from 2001 and 2002 (sample size 20 loans for \$163,183)			
<i>Borrower Income Level</i>	<i>Percentage of households by income category in the AA – per 1990 Census</i>	<i>Percentage of loan sample to borrowers in each income category (Number of Loans)</i>	<i>Percentage of loan sample to borrowers in each income category (\$ Amount of Loans)</i>
Low-income	33.95%	35.00%	27.05%
Moderate-income	17.61%	20.00%	12.00%
Middle-income	18.34%	25.00%	40.03%
Upper-income	30.10%	20.00%	20.92%

Source: 1990 U.S. Census Data

Distribution of Consumer Loans by Borrower Income using sample of loans from 2003 (sample size 20 loans for \$108,825)			
<i>Borrower Income Level</i>	<i>Percentage of households by income category in the AA – per 2000 Census</i>	<i>Percentage of loan sample to borrowers in each income category (Number of Loans)</i>	<i>Percentage of loan sample to borrowers in each income category (\$ Amount of Loans)</i>
Low-income	32.96%	35.00%	22.36%
Moderate-income	18.09%	30.00%	21.42%
Middle-income	18.61%	25.00%	36.85%
Upper-income	30.34%	5.00%	15.87%
Not applicable	N/A	5.00%	3.50%

Source: 2000 U.S. Census Data

Geographic Distribution of Loans

The distribution of the bank's lending activity reflects reasonable penetration within its AA. In determining the overall conclusion for this performance criterion, greater weight was given to

the results from the sample of 1-4 Family Residential Loans as that loan segment represents 85% of the bank's loan portfolio (as of September 30, 2003).

Geographic distribution of 1-4 family residential loans is reasonable. For all periods reviewed (2001-2003), the bank's lending in moderate-income areas significantly exceeded the percentage of owner-occupied units in moderate-income areas. This performance is consistent with the geographic distribution of the bank's two offices which are located in moderate-income areas with a majority of its target market in those areas. Also, based on 1990 Census demographic data, the next two closest income areas were also moderate-income geographies. 2000 Census data reflects the next closest income area to be a moderate-income area. The lack of penetration for residential loans in the low-income area is not a concern given the low percentage (0.85% for 1990 Census and 0.24% for 2000 Census) of owner occupied units in that low-income area.

Geographic distribution of consumer loans is reasonable. For all periods reviewed (2001-2003), the bank's lending in moderate-income areas significantly exceeded the percentage of households in moderate-income areas. This performance is also consistent with the geographic distribution of the bank's only two offices, which are located in moderate-income areas with a majority of its target market in those moderate-income areas. Also, based on 1990 Census data, the two closest income areas were also moderate-income. 2000 Census data reflected that the next closest income area is a moderate-income area. The lack of penetration for consumer loans in the low-income area is not a concern because that one low-income area is located near Ohio University in Athens, Ohio and has mostly a student population. Athens, Ohio is about 15 miles from Nelsonville, Ohio and is heavily banked with branches of eight different financial institutions.

The following tables provide detail on the bank's geographic distribution analysis.

<i>Geographic Distribution of 1-4 Family Residential Loans in the AA using sample of loans from 2001 and 2002 (sample size 20 loans for \$1,228,870)</i>			
<i>Geography Income Level</i>	<i>Percentage of owner-occupied units in each type of income tract – per 1990 Census</i>	<i>Percentage of loan sample in each type of tract (Number of Loans)</i>	<i>Percentage of loan sample in each type of tract (\$ Amount of Loans)</i>
Low-income area (1)	0.85%	0%	0%
Moderate-income area (14)	56.84%	100%	100%
Middle-income area (9)	35.95%	0%	0%
Upper-income area (2)	6.36%	0%	0%

Source: 1990 U.S. Census Data

<i>Geographic Distribution of 1-4 Family Residential Loans in the AA using sample of loans from 2003 (sample size 20 loans for \$1,271,105)</i>			
<i>Geography Income Level</i>	<i>Percentage of owner occupied units in each type of income tract – per 2000 Census</i>	<i>Percentage of loan sample in each type of tract (Number of Loans)</i>	<i>Percentage of loan sample in each type of tract (\$ Amount of Loans)</i>
Low-income areas (1)	0.24%	0%	0%

Moderate-income areas (9)	35.87%	80%	76.86%
Middle-income areas (15)	54.39%	15%	11.34%
Upper-income areas (3)	9.50%	5%	11.80%

Source: 2000 U.S. Census Data

Geographic Distribution of Consumer Loans in the AA using sample of loans from 2001 and 2002 (sample size 20 loans for \$163,183)			
<i>Geography Income Level</i>	<i>Percentage of households in each type of income tract – per 1990 Census</i>	<i>Percentage of loan sample in each type of tract (Number of Loans)</i>	<i>Percentage of loan sample in each type of tract (\$ Amount of Loans)</i>
Low-income areas (1)	5.98%	0%	0%
Moderate-income areas (14)	52.27%	100%	100%
Middle-income areas (9)	34.25%	0%	0%
Upper-income areas (2)	7.50%	0%	0%

Source: 1990 U.S. Census Data

Geographic Distribution of Consumer Loans in the AA using sample of loans from 2003 (sample size 20 loans for \$108,825)			
<i>Geography Income Level</i>	<i>Percentage of households in each type of income tract – per 2000 Census</i>	<i>Percentage of loan sample in each type of tract (Number of Loans)</i>	<i>Percentage of loan sample in each type of tract (\$ Amount of Loans)</i>
Low-income areas (1)	2.70%	0%	0%
Moderate-income areas (9)	33.75%	80%	66.07%
Middle-income areas (15)	52.61%	15%	27.81%
Upper-income areas (3)	10.94%	5%	6.12%

Source: 2000 U.S. Census Data

Responses to Complaints

No complaints relating to the bank's CRA Performance have been submitted during the evaluation period.

Fair Lending Review, Other Illegal Credit Practices, and Predatory and Abusive Lending Practices.

We found no evidence of illegal discrimination or other illegal credit practices.