

PUBLIC DISCLOSURE

September 8, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank: The Killbuck Savings Bank Company
043931000000
165 North Main Street
P. O. Box 407
Killbuck, Ohio 44637

Supervisory Agency: Federal Reserve Bank of Cleveland
P.O. Box 6387
Cleveland, Ohio 44101-1387

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.

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 The Killbuck Savings Bank Company prepared by the Federal Reserve Bank of Cleveland, the institution's supervisory agency, as of September 8, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Outstanding".

The assessment of the record of The Killbuck Savings Bank Company takes into account the bank's financial capacity and size, legal impediments, and local economic conditions and demographics, including the competitive environment in which it operates.

Several factors support The Killbuck Savings Bank Company's outstanding rating. First, the bank maintains a very reasonable loan-to-deposit ratio. Second, a substantial majority of the number of the bank's loans are made within its assessment area. Third, based on an analysis of the bank's loans, the bank has an excellent record in lending to borrowers of different income levels and to small businesses and small farms. Finally, the geographic distribution of the bank's loans is reasonable.

DESCRIPTION OF THE KILLBUCK SAVINGS BANK COMPANY

Based on its size and financial condition, The Killbuck Savings Bank Company (AKSB) effectively meets the credit needs of its assessment area. In addition to its headquarters in Killbuck, the bank operates four full-service offices in Berlin, Mt. Hope, and at two locations in Millersburg, Ohio. KSB also has four automated teller machines (ATMs), which provides 24-hour access at all office locations except Mt. Hope. The bank is planning to install a fifth ATM at its Mt. Hope office later this year. KSB serves all of Holmes County and portions of the following surrounding counties: Ashland, Knox, Coshocton, Tuscarawas, and Wayne.

According to the March 31, 1997, Uniform Bank Performance Report (UBPR), the most recent report available, the bank had total assets of approximately \$190 million. Since December 31, 1994, the bank's loans and deposits have increased approximately \$14 million and \$32 million, respectively. During the same period, the bank's total assets increased almost \$41 million. The bank's average net loan-to-deposit ratio for the past eight quarters approximates 72%. Its net loan-to-deposit ratio has been relatively stable since the previous CRA evaluation. The bank's portfolio is comprised of approximately 41% commercial, 37% consumer real estate, 17% consumer loans, and 5% agricultural loans.

The bank offers a variety of loan products to fulfill the credit needs of residents and businesses within its assessment area. It extends consumer open- and closed-end, fixed- and adjustable-rate residential real estate, construction, agricultural, and commercial loans. In addition to offering these conventional loan products, the bank participates in a special low- and moderate-income home buyers program through the Federal Home Loan Bank and the State of Ohio Linked Deposit Loan Program for business and agriculture loans.

There are no legal or financial impediments that would prevent the bank from helping to meet the credit needs of its community.

DESCRIPTION OF THE KILLBUCK SAVINGS BANK COMPANY'S ASSESSMENT AREA

KSB defines its assessment area as all of Holmes County and portions of the surrounding counties of Ashland, Knox, Coshocton, Tuscarawas, and Wayne. None of the bank's offices are located in a Metropolitan Statistical Area (MSA).

CRA divides income levels for individuals into four categories: low-, moderate-, middle-, and upper-income. Since Holmes, Wayne, Stark, Tuscarawas, and Coshocton Counties are not located in an MSA, these counties are divided into block numbering areas ("BNAs"). Accordingly, borrower or BNA income is categorized relative to the statewide nonmetropolitan median family income. Based on 1990 census data, the statewide median family income for Ohio is \$38,800. KSB's assessment area consists primarily of middle-income census tracts but also includes three moderate-income BNAs located in Wayne, Coshocton, and Tuscarawas Counties and one upper-income BNA located in Wayne County.¹

According to 1990 census data, the population for the assessment area is 91,408. The table below shows the assessment area's population distribution by BNA income level.

| POPULATION DISTRIBUTION BY BLOCK NUMBERING AREA | | |
|--|------------|------------|
| | Population | Percentage |
| Low-income | 0 | 0% |
| Moderate-income | 14,478 | 15.84% |
| Middle-income | 76,540 | 83.73% |
| Upper-income | 390 | 0.43% |

According to 1990 census data, there are 23,394 families living in KSB's assessment area. Of these families, approximately 19% are low-income, 21% are moderate-income, 25% are middle-income, and 35% are upper-income. About 16% of the low-income families have incomes below the poverty level.

Examiners contacted two local community leaders as part of the bank's CRA

¹**NOTE:** Low-, moderate-, middle-, and upper-income are defined as follows:

Low-income: Up to 50% of the median MSA family income.

Moderate-income: Greater than 50% up to 80% of the median MSA income.

Middle-income: Greater than 80% up to 120% of the median MSA family income.

Upper-income: Greater than 120% of the median family income.

evaluation. Information from these contacts was used to evaluate KSB's CRA performance.

According to community contacts and bank management, approximately 50% of the population in the bank's assessment area is Amish. In fact, the Amish settlement in Holmes County is the largest in the world. The economy in the area is strong and improving. Unemployment, income, and population trends have all been positive for Holmes County. Over the past year, jobless rates have averaged approximately 3%, considerably lower than the state average of 4.3%.

Major economic forces in the area are tourism, manufacturing, agriculture, and the service industry. The service sector dominates the area, employing 39% of Holmes County's workforce, followed by manufacturing firms with 34%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank's CRA performance was analyzed using interagency examination procedures. The analysis included the following criteria:

- C the loan-to-deposit ratio, averaged over the past eight quarters;
- C lending activity inside and outside the bank's assessment area;
- C the reasonableness of the geographic distribution of loans within the bank's assessment area;
- C the record of lending to borrowers with varying income levels;
- C the distribution of loans to businesses and farms of different sizes; and
- C the bank's response to any written complaints concerning its performance in helping to meet the credit needs within its assessment area.

Loan-to-Deposit Ratio Analysis

For a bank of its size, location, and financial condition, KSB's loan-to-deposit ratio is very reasonable at 72% and, as such, exceeds the standards for satisfactory performance. The ratio was calculated by averaging KSB's eight most recent quarterly net loan-to-deposit ratios. The loan-to-deposit ratio was evaluated in terms of the bank's capacity to lend, the loan-to-deposit ratios of similarly situated (peer) and competitor banks, and available lending opportunities in the assessment area.

KSB's loan-to-deposit ratio, which has been relatively stable, continues to exceed that of its national peer group. The loan-to-deposit average for KSB's peer banks is 70%. KSB faces stiff competition from other financial institutions in its assessment area. Ten other banks have offices within KSB's assessment area.

Based on loan demand and the lack of any identified unmet credit needs, the bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

Comparison of Credit Extended Inside and Outside the Assessment Area

A review of a statistical sample of the loans originated by the bank since the previous CRA evaluation reveals that a majority of its loans were made inside its assessment area. The following table shows the percentage for number and dollar volume of those major loan product lines sampled that were made inside the assessment area.

| PERCENTAGE OF LOANS INSIDE THE ASSESSMENT AREA | | |
|--|-----------------------|------------------------------|
| Major Loan Product Lines Sampled | Total Number of Loans | Total Dollar Amount of Loans |
| Motor Vehicle | 97% | 97% |
| Other Consumer | 96% | 98% |
| Residential Real Estate | 89% | 90% |
| Small Business | 93% | 95% |

This level of concentration in the assessment area exceeds the standards for satisfactory performance. These four loan categories represent approximately 94% of the bank's loan portfolio, and the vast majority of these loans, both by number and by dollar amount, were originated inside the assessment area.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

KSB's record of lending to borrowers of different income levels is exceptionally strong and, as such, exceeds the standards for satisfactory performance. Our

sampling indicates that the bank provides motor vehicle, other consumer, and residential real estate loans to individuals of all the different income levels, as shown in the following table.

| PERCENTAGE OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL | | | | |
|--|-----------------------|----------------------------|--------------------------|-------------------------|
| Loan Type | Low Income | Moderate Income | Middle Income | Upper Income |
| MOTOR VEHICLE | | | | |
| Total Number of Loans | 44% | 37% | 9% | 11% |
| Total Amount of Loans | 36% | 36% | 9% | 19% |
| OTHER CONSUMER | | | | |
| Total Number of Loans | 42% | 36% | 14% | 8% |
| Total Amount of Loans | 29% | 32% | 21% | 17% |
| RESIDENTIAL REAL ESTATE | | | | |
| Total Number of Loans | 8% | 34% | 29% | 29% |
| Total Amount of Loans | 3% | 32% | 33% | 32% |

The data in the table indicate that the bank originated 81% of its motor vehicle loans, 78% of its other consumer loans, and 42% of its residential real estate loans to low- and moderate-income individuals. As previously stated, approximately 40% of the families living in the bank's assessment area are identified as low- and moderate-income. Accordingly, this level of motor vehicle, consumer, and residential real estate lending reflects a very strong record of lending to borrowers of different income levels.

Examiners sampled the bank's commercial and agricultural loans. The sampling

indicated that 84% of these loans were made to small businesses and small farms. Small businesses and small farms are defined as those with annual gross revenues of \$1 million or less.

The bank's emphasis on small business and small farm lending, which together represent 46% of KSB's loan portfolio, combined with consumer loans to low- and moderate-income borrowers, demonstrates a strong commitment to meeting the credit needs of all segments of the community and exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The distribution of the bank's loans between geographies of different income levels is reasonable. As previously discussed, the bank's assessment area consists of three moderate-income, nineteen middle-income, and one upper-income BNAs. The assessment area includes no low-income BNAs. Approximately 16% of the population resides in moderate-income BNAs, 84% in the middle-income BNAs, and less than 1% resides in the single upper-income BNA. As the following table illustrates, KSB's lending patterns approximate this distribution.

| DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF BLOCK NUMBERING AREA | | | | |
|---|------------------------|----------------------------------|---------------------------|--------------------------|
| Loan Type | Low- Income | Moderate - Income | Middle- Income | Upper- Income |
| MOTOR VEHICLE | | | | |
| Total Number of Loans | 0% | 5% | 95% | 0% |
| Total Amount of Loans | 0% | 5% | 95% | 0% |
| OTHER CONSUMER | | | | |
| Total Number of Loans | 0% | 6% | 94% | 0% |
| Total Amount of Loans | 0% | 8% | 92% | 0% |

| | | | | |
|-------------------------|----|----|-----|----|
| RESIDENTIAL REAL ESTATE | | | | |
| Total Number of Loans | 0% | 5% | 95% | 0% |
| Total Amount of Loans | 0% | 3% | 97% | 0% |
| SMALL BUSINESS | | | | |
| Total Number of Loans | 0% | 6% | 94% | 0% |
| Total Amount of Loans | 0% | 3% | 97% | 0% |

As shown above, the percentages of motor vehicle, other consumer, residential real estate, and small business loans in the moderate-, middle- and upper-income tracts approximate the percentage of assessment area residents living in these BNAs. Because the majority of KSB's assessment area residents live in middle-income BNAs, it is reasonable to find the highest percentage of loans originated in these BNAs. As such, the bank's geographic distribution of loans is reasonable and, thus, meets the standards for satisfactory performance.

General Comments

The evaluation did not reveal any practices that are inconsistent with the substantive provisions of the fair lending and fair housing laws and regulations. In addition, the bank has not received any CRA complaints since the previous evaluation.

In addition to the previously discussed performance standards, this evaluation also assessed the bank's performance in making qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability within its assessment area.

The bank's five office locations and four ATMs are situated throughout its assessment area, providing good access to KSB's products and services.

Since the previous evaluation, the bank has twice participated with the Federal Home Loan Bank to provide a low-cost mortgage. KSB targeted these programs toward low- and moderate-income individuals. The first of these programs, starting in late 1995, resulted in ten loans totaling \$530,000. Eight of the ten borrowers had low or moderate incomes. The second program, commencing in late 1996, resulted in another ten loan originations aggregating \$520,000. Once again, eight

of the ten loans were made to borrowers with low or moderate incomes.

KSB has no minimum loan amount. This feature is especially beneficial to low- and moderate-income individuals and enhances credit availability throughout the bank's assessment area.

The bank's performance in providing products and services that enhance credit availability in its assessment area are noteworthy and demonstrate its commitment to complying with the spirit of the CRA.

