

# PUBLIC DISCLOSURE

December 1, 1997

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank: The Andover Bank  
043901300000  
600 East Main  
Andover, Ohio

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 Andover Bank, Andover, Ohio, prepared by The Federal Reserve Bank of Cleveland, the institution's supervisory agency, as of December 1, 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 Andover Bank ("TAB") 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 TAB's outstanding rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, a 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. Finally, the geographic distribution of the bank's loans is very good.

## **DESCRIPTION OF INSTITUTION**

Based on its size and financial condition, TAB effectively meets the credit needs of the assessment area. The bank operates five full-service offices, Andover, Austinburg, Geneva, Jefferson, and Pierpont, Ohio. TAB serves all of Ashtabula County, Ohio. TAB's five (5) ATMs have 24-hour access.

According to the September 30, 1997, Uniform Bank Performance Report (UBPR), the most recent report available, the bank had total assets of approximately \$164 million. Since March 31, 1996, the bank's loans and deposits have increased approximately \$8.6 million and \$12.4 million respectively. In addition, since March, the bank's total assets increased by approximately \$15.2 million. The bank's average loan-to-deposit ratio for the past seven quarters approximates 65%. Including secondary real estate market sales of approximately \$7.8 million over the past seven quarters increases the average loan-to-deposit ratio slightly to 66%. Its loan-to-deposit ratio has remained relatively stable since the previous CRA evaluation. The bank's portfolio consists of approximately 77% real estate, 7% consumer, 2% agricultural, and 13% commercial loans.

The bank offers a variety of loan products to fulfill the credit need of residents and businesses within its assessment area. It extends consumer open- and closed-end, fixed- and adjustable-rate residential real estate, construction, mobile home, and commercial loans. In addition to offering these conventional loan products, the bank also offers special interest rate community development loan programs.

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 ANDOVER BANK ASSESSMENT AREA**

TAB defines its assessment area as Ashtabula County, Ohio, which is part of the Cleveland-Lorain-Elyria, Ohio, Primary Metropolitan Statistical Area ("PMSA"). All of the bank's offices are located in this PMSA #1680. There are no block numbering areas in the bank's assessment area.

CRA divides income levels for individuals into four categories: low-, moderate-, middle, and upper-income. TAB's assessment area consists of 5 low-income, 10 moderate-income, 10 middle-income, and no (0) upper-income census tracts.<sup>1</sup> As of the 1990 census data the median household income and the median family income for TAB's assessment area are \$24,126 and \$28,611, respectively. These figures are lower than the median household and median family incomes for the PMSA #1680, which are \$30,351 and \$36,500, respectively. The bank's median household and median family incomes are also lower than the State of Ohio's median household and median family incomes, which are \$28,706 and \$34,351, respectively.

According to 1990 census data, the population for the assessment area is 99,821. The following table shows the assessment area's population distribution by census tract.

<b>POPULATION DISTRIBUTION BY CENSUS TRACT</b>		
	<b>Population</b>	<b>Percentage</b>
Low-income	3,789	3.8%
Moderate-income	45,182	45.3%
Middle-income	50,850	50.9%
Upper-income	0	0%

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<sup>1</sup>**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.

Examiners conducted two local community contacts as part of the bank's CRA evaluation. Information from these contacts was used to evaluate TAB's CRA performance.

According to community contacts and bank management, the economy in the bank's assessment area is stable and improving. Local unemployment is approximately 6.0%, compared with the state rate of approximately 4.2% as of November 1997, and reported in the November 1997 Ohio Labor Force bulletin. Major economic forces in the area are manufacturing, agriculture, service, recreation, and retail industries.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

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

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

Loan-to-Deposit Ratio Analysis

For a bank of its size, location, and financial condition, TAB's loan-to-deposit ratio is reasonable and, as such, meets the standards for satisfactory performance at 65%. The ratio was calculated by averaging TAB's most recent seven quarterly net loan-to-deposit ratios. The loan-to-deposit ratio was evaluated in terms of the bank's capacity to lend, a comparison to loan-to-deposit ratios of similarly situated (peer) and competitor banks, and assessed for available lending opportunities in the assessment area.

TAB's loan-to-deposit (65%) ratio is slightly lower than that of its national peer group (72%). The loan-to-deposit ratio calculations are detailed in the table below:

<b>Date</b>	<b>Loans (In thousands)</b>	<b>Deposits (In thousands)</b>	<b>Loan-to-Deposit Ratio</b>
March 31, 1996	\$85,723	\$129,783	66%
June 30, 1996	\$85,950	\$131,542	65%
September 30, 1996	\$86,906	\$135,164	64%
December 31, 1996	\$88,093	\$133,864	66%
March 31, 1997	\$88,137	\$137,410	64%
June 30, 1997	\$93,963	\$141,775	66%
September 30, 1997	\$94,331	\$142,218	66%

7 Quarter Average			65%
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As of the most recent UBPR, the bank's loan-to-deposit ratio was 66%, which places TAB in the 31st percentile in relation to its peer group. TAB faces stiff competition from other financial institutions in its assessment area. Including secondary real estate market sales of approximately \$7.8 million over the past seven quarters the loan-to-deposit ratio increases slightly from 65% to 66%. Based on loan demand and the lack of any identified unmet credit needs, the bank's loan-to-deposit ratio meets 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 percentages for number and dollar volume of those major loan product lines sampled that were made inside the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA

<u>Major Loan Product Lines</u>	<u>Total Number of Loans</u>	<u>Total Amount of Loans</u>
Consumer	84%	82%
Commercial/AG	91%	95%
Home Improvement	98%	98%
Home Purchase – Conventional	98%	96%
Home Purchase – FHA	100%	100%
Refinancing	98%	97%

This level of concentration in the assessment area exceeds the standards for satisfactory performance. These loan categories represent approximately 99% 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

TAB's record of lending to borrowers of different income levels is very good and, as such, exceeds the standards for satisfactory performance. Our sampling indicates that the bank provides consumers, home purchase, small business, and residential loans to individuals of all different income levels as shown in the table below.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL

<u>Loan Type</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
Consumer				
Total Number of Loans	71%	8%	10%	10%
Total Amount of Loans	63%	7%	13%	17%
Home Improvement				

Total Number of Loans	26%	32%	24%	19%
Total Amount of Loans	19%	32%	23%	26%
Home Purchase Conventional				
Total Number of Loans	13%	36%	25%	26%
Total Amount of Loans	9%	34%	26%	32%
Home Purchase - FHA				
Total Number of Loans	30%	70%	0%	0%
Total Amount of Loans	21%	79%	0%	0%
Refinancing				
Total Number of Loans	12%	28%	31%	29%
Total Amount of Loans	8%	22%	36%	34%

The data in the table indicate that the bank originated 79% of its consumer and 77% of its aggregate residential loans to low- and moderate-income individuals. These levels of lending reflect an excellent record of lending to borrowers of different income levels.

Analysis of the distribution of small business and farm loans throughout the bank's assessment area by income level of borrower reveals that the bank is originating loans to small entities regardless of income level. Approximately 100% of the small business loan operations in the assessment area that were reviewed had revenues less than \$1,000,000, which 83% of the loans were for less than \$100,000. The bank's emphasis on small business lending, which represents 13% of TAB's loan portfolio, combined with consumer and residential loans, which represent 77% and 7%, respectively, of TAB's loan portfolio 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 very good. As previously discussed, the bank's assessment area includes 5 low-income, 10 moderate-income, 10 middle-income, and no (0) upper-income tracts. Approximately 49.1% of the population reside in the low- and moderate-income tracts and 50.9% resides in the middle-income tracts. As the following table illustrates, TAB's lending patterns exceed this distribution.

#### DISTRIBUTION OF LOANS IN ASSESSMENT AREA GEOGRAPHIES

<u>Loan Type</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
Consumer				
Total Number of Loans	0%	53%	47%	0%
Total Amount of Loans	0%	51%	49%	0%
Commercial/AG				
Total Number of Loans	0%	60%	40%	0%
Total Amount of Loans	0%	54%	46%	0%
Home Improvement				

Total Number of Loans	0%	50%	50%	0%
Total Amount of Loans	0%	47%	53%	0%
Home Purchase Conventional				
Total Number of Loans	0%	61%	39%	0%
Total Amount of Loans	0%	59%	41%	0%
Home Purchase - FHA				
Total Number of Loans	0%	80%	20%	0%
Total Amount of Loans	0%	83%	17%	0%
Refinancing				
Total Number of Loans	1%	44%	55%	0%
Total Amount of Loans	1%	39%	60%	0%

As shown above, the percentages of consumer, residential and small business loans in the low- and moderate-income tracts exceed the percentages of assessment area residents living in these tracts. Because the majority of TAB's assessment area residents live in moderate and middle-income tracts, it is reasonable to find the highest percentage of loans originated in these tracts. In addition, four of the five low-income census tracts consist mainly of boarded-up housing, empty factory building sites and multi-family housing projects with no (zero) population existing in four of the five low-income census tracts. As such, the bank's geographic distribution of loans is reasonable, which exceeds 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.