

PUBLIC DISCLOSURE

September 29, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank: Castalia Banking Company
043910900000
208 South Washington Street
P.O. Box 157
Castalia, Ohio 44824

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.

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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 Castalia Banking Company, Castalia, Ohio, prepared by the Federal Reserve Bank of Cleveland, the institution's supervisory agency, as of September 29, 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.

Castalia Banking Company ("CBC") has an outstanding record of helping to meet the credit needs of its entire community, consistent with the bank's resources and capabilities. The bank's loan-to-deposit ratio is more than reasonable, a substantial majority of CBC's loans are within its assessment area, loans are reasonably dispersed throughout the assessment area, and loans reflect an excellent penetration among individuals of different income levels, including low- and moderate-income individuals and small businesses.

DESCRIPTION OF INSTITUTION

Castalia Banking Company's main office is located at 208 South Washington Street, Castalia, Ohio. The bank owns one automated teller machine ("ATM") which is located at the main office.

Based on its size and financial condition, the bank is able to effectively meet the credit needs of the communities in its assessment area. The types of credit offered, as noted in the bank's public file, include consumer loans, real estate loans, and loans to finance agriculture and small businesses.

The bank reported total assets of \$52.8 million in its June 30, 1997, Report of Condition and Income ("Call Report"). Table 1 reflects the distribution of the bank's loan portfolio as of that date.

Table 1

LOAN PORTFOLIO DISTRIBUTION AS OF JUNE 30, 1997		
Type of Loan	Amount (In Thousands)	Percentage of Total Loans
Commercial loans	2,266	6.44%
Loans secured by real estate:		
Secured by nonfarm, nonresidential properties	3,266	9.28%
Revolving, open end loans secured by 1- to 4-family residential properties	0	0.00%
Loans secured by 1- to 4-family residential properties	20,846	59.25%
Secured by farmland	1,096	3.12%
Construction and land development	294	0.84%
Secured by multifamily (5 or more) residential properties	82	0.23%
Agricultural loans	2,888	8.21%
Consumer loans	4,530	12.88%
Other	(86)	-0.24%
Total	35,182	100.00%

The bank's performance under CRA was rated "Outstanding" at the previous examination of October 3, 1994.

DESCRIPTION OF CBC'S ASSESSMENT AREA

The bank's assessment area is generally defined as portions of Erie, Huron, and Sandusky Counties. More specifically, the bank has determined its assessment area to include the following census tracts and block numbering areas:

Erie County

404	405	406	407
408	409	410	411
412	413	414	415
416	417	418	

Huron County

9960

Sandusky County

9608	9619	9620	9621
9622			

The following table shows the distribution of those census tracts and block numbering areas ("BNAs") among the four income categories:

Table 2

INCOME CLASSIFICATION OF CENSUS TRACTS/BNAs IN ASSESSMENT AREA					
	Census Tract Income Classifications ⁶				
	Low ¹	Moderate ²	Middle ³	Upper ⁴	Total
Number of Tracts	0	2	10	9	21
Percentage of Total Tracts*	0%	10%	48%	43%	100%
Population ⁵	0	9,143	42,690	36,584	88,417
Percentage of Total Population*	0%	10%	48%	41%	100%
Number of Households ⁵	0	3,805	16,077	13,449	33,331
Percentage of Total Households*	0%	11%	48%	40%	100%
Owner-Occupied Households ⁵	0	1,643	11,450	10,617	23,710
Percentage of Total OOH*	0%	7%	48%	45%	100%
Number of Families ⁵	0	2,230	11,670	10,301	24,201
Percentage of Total Families*	0%	9%	48%	43%	100%

¹ Less than 50 percent of the metropolitan statistical area ("MSA") median family income.
² At least 50 percent and less than 80 percent of the MSA median family income.
³ At least 80 percent and less than 120 percent of the MSA median family income.
⁴ 120 percent or more of the MSA median family income.
⁵ Based on 1990 Census Data information.
⁶ Based on HUD's estimated median family income for the MSA of 8400 which was \$38,800 in 1997.
 * May not total 100 percent due to rounding.

Based on the information from the 1990 census, there are 88,417 persons and 33,331 households within Castalia Banking Company's assessment area. The median household income in the assessment area is \$28,824, and the median family income is \$34,763. The median family income in Ohio for 1997 is \$38,800. Household income includes the income of all persons residing within a household, while family income includes only the income of persons related by blood, marriage, or adoption within a household.

Castalia, a small village in Erie County with a population of just over 900, is home to Castalia Banking Company, the only bank in Castalia. Though small, Castalia is near Sandusky, the largest city in the county and home of the county's largest employers. Located midway between Toledo and Cleveland and bordered by Lake Erie on the north, the region depends heavily on automotive manufacturing and health care services. Tourist attractions (several state parks and resort areas) are also an important component of the local economy.

Although very little data exist about Castalia, the 1990 census data indicate that the city's

employment is about 27% manufacturing, 24% services, and 10% transportation and utilities. Only a few industrial companies are located in Castalia, the largest of which is Sandusky Crushed Stone Company which employs 120. Erie County has an employment distribution similar to that of Castalia, except for the transportation sector which accounts for only 3% of jobs.

The area's largest employer is Cedar Point, an amusement park. In season, May through September, Cedar Point employs 3,500 workers; off-season, it employs only 325. The next two largest employers are Delphi Chassis, a General Motors supplier, and Ford Motor Company. Each of these companies employs 1,700. Other large employers include hospitals and health care establishments, county and local government, and rubber and plastics manufacturers.

The population in Castalia has held relatively constant over the past 5 years, while Erie County's population has grown slightly. Overall, this is a stable economy. The July 1997 unemployment rates for Erie and Sandusky Counties were 4.8% and 6.4%, respectively, compared with that of the state unadjusted average of 4.1% and the national unadjusted average of 5.0% for the same time period. Sandusky County's high unemployment rate is a direct result of the loss of many factory and manufacturing jobs.

One community contact was conducted in conjunction with the examination. Additionally, one contact from an examination prior to this one was also used. These contacts provided information used in developing the performance context for the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

- ! loan-to-deposit ratio;
- ! lending activity inside and outside of the bank's assessment area;
- ! distribution of loans to borrowers of different income levels;
- ! distribution of loans to businesses and farms of different sizes;
- ! reasonableness of the geographic distribution of loans within the bank's assessment area;
- ! bank's response to written complaints regarding its performance in helping to meet the credit needs of the assessment area.

Loan-To-Deposit Ratio

Castalia Banking Company's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, assessment area credit needs, and competition. The bank's average loan-to-deposit ratio for the eleven quarters between examinations, based on June 30, 1997, Call Report information, is 77.10%. As listed in the June 30, 1997, Uniform Bank Performance Report, the bank's loan-to-deposit ratio was 79.81% which is significantly higher than the national peer average of 66.24% for banks of similar size for the same time period.

Lending Volume Within Assessment Area

Based on a sample of loans reviewed during the examination, it appears that a substantial majority of loans are in the bank's assessment area. Three loan types which were determined to be the bank's major loan types were sampled, including consumer, residential, and small business/farm loans.

Of the total number and total dollar volume of loans sampled, 96% and 95%, respectively, were originated within the bank's assessment area. As shown in the following table, the concentration of the number and dollar volume of loans within the assessment area substantially exceeds standards.

Table 3

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
Loan Type	<i>Inside the Assessment Area</i>				<i>Outside the Assessment Area</i>			
	Number of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of Loans	%
All Consumer Loans	161	95%	\$1,239,351	92%	8	5%	\$ 107,596	8%
Residential Loans	33	100%	\$2,257,366	100%	0	0%	\$ 0	0%
Small Business/Farm Loans	32	94%	\$1,389,337	90%	2	6%	\$ 150,000	10%
Total	226	96%	\$4,886,054	95%	10	4%	\$257,596	5%

Lending to Borrowers of Different Incomes

The distribution of borrowers, given the demographics of the assessment area, reflects an excellent penetration among borrowers of different income levels, particularly low- and moderate-income borrowers.

Overall, the distribution of total loans sampled to low- and moderate-income level borrowers is

significant. For instance, 46% of all consumer loans were made to borrowers of low- to moderate-income levels, while 24% of all residential loans were made to low- to moderate-income borrowers. Such percentages are particularly noteworthy considering that only 30.8% of the families in the assessment area are low- to moderate-income, of which 7.2% are families whose incomes fall below the poverty level. The following table shows the breakdown of loan type to borrowers within the different income levels by loan product for the assessment area.

Table 4

DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER									
Income Level	<i>Consumer-All</i>				<i>Residential</i>				<i>% of Families⁵</i>
	No.	%	\$ Amount	%	No.	%	\$ Amount	%	%
Low ¹	30	19	120,113	10	3	9	127,586	5	14.0
Moderate ²	44	27	272,617	22	5	15	244,600	11	16.8
Middle ³	51	32	405,483	33	8	24	545,800	24	22.6
Upper ⁴	36	22	441,138	36	17	52	1,345,380	60	46.6

- 1 Less than 50 percent of the metropolitan statistical area ("MSA") median family income
- 2 At least 50 percent and less than 80 percent of the MSA median family income
- 3 At least 80 percent and less than 120 percent of the MSA median family income
- 4 120 percent or more of the MSA median family income
- 5 Represents the percentage of families in the assessment area categorized by income level.

Additionally, the distribution of small business loans within the assessment area by borrower revenue is also significant. As shown in the following table, 100% of the loans originated were made to businesses and farms with revenues less than \$1,000,000.

Table 5

DISTRIBUTION OF COMMERCIAL/AGRICULTURAL LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Revenue Category¹	Number of Loans	%	Dollar Amount of Loans	%
Less than \$100,000	10	31	224,814	16
Greater than or equal to \$100,000 but less than \$250,000	10	31	414,139	30
Greater than or equal to \$250,000 but less than \$500,000	10	31	616,078	44
Greater than or equal to \$500,000 but less than \$1,000,000	2	7	134,306	10
Greater than or equal to \$1,000,000	0	0	0	0

¹ Based on gross annual revenue figures

Geographic Distribution Within Assessment Area

The bank's overall geographic distribution of loans reflects a reasonable dispersion throughout the bank's assessment area given the bank's location, size, and level of competition. As depicted in the following table, the majority of loans made were concentrated in middle- and upper-income census tract areas.

The analysis of data in the following table shows that, while 9.5% of the assessment area is comprised of moderate-income level census tracts, 5% of the number of loans were made within these tracts. The low volume of lending in the moderate-income level tracts within the bank's assessment area appears to be affected by the location of the bank's office. The moderate-income tracts are located in the northern portion of the assessment area near the City of Sandusky, an area in which CBC has no branches. Additionally, one of CBC's sister banks is located in the City of Sandusky which makes it difficult for CBC to compete in that market.

Table 6

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACTS COMPARED TO CHARACTERISTICS OF THOSE TRACTS								
	Low-Income ¹		Moderate-Income ²		Middle-Income ³		Upper-Income ⁴	
	No.	\$	No.	\$	No.	\$	No.	\$
Consumer-All	0	0	8	31,202	36	253,586	117	954,363
<i>Percent of Total</i>	0%	0%	5%	3%	22%	20%	73%	77%
Residential	0	0	2	80,000	3	96,000	28	2,081,366
<i>Percent of Total</i>	0%	0%	6%	4%	9%	4%	85%	92%
Small Business/Farm	0	0	1	12,934	11	388,975	20	987,428
<i>Percent of Total</i>	0%	0%	3%	1%	34%	28%	63%	71%
Number of tracts in Assessment Area								
<i>Percentage of Tracts</i>	0		2		10		9	
	0%		9.5%		47.6%		42.9%	
Number of Families by Tract								
<i>Percentage of Families</i>	0		2,230		11,670		10,301	
	0%		9.2%		48.2%		42.6%	
Owner-Occupied Households by Tract								
<i>Percentage of Households</i>	0		1,643		11,450		10,617	
	0%		6.9%		48.3%		44.8%	

¹ Census tract having less than 50 percent of the MSA median family income.

² Census tracts having at least 50 percent and less than 80 percent of the MSA median family income.

³ Census tracts having at least 80 percent and less than 120 percent of the MSA median family income.

⁴ Census tracts having 120 percent or more of the MSA median family income.

ADDITIONAL FACTORS

No complaints were received by the Federal Reserve Bank of Cleveland or Castalia Banking Company regarding the bank's performance under the Community Reinvestment Act.

No substantive violations of the fair lending laws were noted during the examination. Interviews with employees and management revealed an understanding of the regulatory requirements regarding fair lending.