

INTERMEDIATE SMALL BANK

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

PUBLIC DISCLOSURE

May 8, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Lorain National Bank

Charter Number 14290

**457 Broadway
Lorain, OH 44052**

**Comptroller of the Currency
Northern Ohio Field Office
3 Summit Park Drive Summit Office Park, Suite 530
Independence, OH 44131**

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 Outstanding.

The Lorain National Bank (LNB) has an excellent record of meeting community credit needs. This is based on the following:

The Lending Test is rated: Outstanding

The Community Development Test is rated: Outstanding

The major factors supporting the bank's rating include:

- The bank's net loan-to-deposit ratio is excellent.
- The bank's record of lending in the assessment area is satisfactory.
- The bank's record of lending to borrowers of different income levels is good.
- The bank's record of lending to businesses of different sizes is excellent.
- The bank's geographic distribution of loans is excellent.
- The bank's community development performance through its record of retail services, community development loans, qualified investments, and community development services demonstrates excellent responsiveness to community development needs in its assessment areas (AAs).

SCOPE OF THE EXAMINATION

Conclusions regarding the bank's lending performance are based on residential mortgage and small business loans from January 1, 2004 through December 31, 2005. For the community development test, the evaluation period runs from the ending date of the last CRA examination (October 7, 2002) to the stated date of the current CRA examination. This test includes a review of the investments, services and loans provided in the banks assessment areas which meet the definition of community development.

The bank has two assessment areas (AAs). The bank's primary AA is a portion of the Cleveland-Elyria-Medina MSA [17460] that includes Lorain County and portions of western Cuyahoga County. This area, referred to as the Lorain-Cleveland Area, was selected for a full scope review due to the location of the bank's headquarters, the number of branch locations, and because 97 percent of lending activity occurs in the area. The bank's overall rating is based primarily on performance in the full scope AA.

The bank's other AA, in the Sandusky MSA [41780], includes 2 geographies in Erie County which abuts the western border of Lorain County. The bank has no deposits or branches in this AA, but it does include a deposit taking ATM. This AA was selected to receive a limited scope review.

Our review also included contacting three local housing and economic development groups to ascertain community credit needs. Each contact also stated the local financial institutions offering products to help meet these needs. Refer to the Performance Context portion of the evaluation for additional information.

DESCRIPTION OF INSTITUTION

The Lorain National Bank [LNB] is located in Lorain, Ohio and is a wholly owned subsidiary of LNB Bancorp Inc., a financial holding company. As of December 31, 2005, LNB Bancorp Inc. had \$801,121,000 in total assets. Other affiliates of the LNB Bancorp during the evaluation period include Charleston Insurance Agency [CIA], a wholly owned insurance subsidiary, and a minority ownership interest in Charleston Title Agency LLC [CTA]. CIA offers life, long-term care insurance, and fixed annuity products while CTA offers traditional title services. No affiliate activities are included in the evaluation of LNB's CRA performance.

The bank's focus is on retail and commercial banking and offers standard products and services in these areas. The bank has twenty offices with fourteen full service and six limited service branches. The main office is located in Lorain, situated in northern Lorain County. Branches are located throughout Lorain County with three branches located in western Cuyahoga County which abuts with Lorain County. All full-service branches provide drive-through banking service and ATMs. The bank's 24 Money Mate ATMs operate on the STAR network and offer services nationwide. In addition, the bank has limited service branches in four retirement communities: two in Lorain County [Elyria Methodist Village and Kendall at Oberlin] and two in Cuyahoga County [Westlake Village in Westlake and The Renaissance in Olmsted Township].

These locations are restricted to residents, their visitors and employees and opened only limited hours and days throughout the week.

As of December 31, 2005 LNB had \$801,100,000 in total assets. Loans represent 74 percent of total assets. The distribution of LNB's loan portfolio is as follows: real estate loans [77 percent], loans to individuals [11 percent], commercial and industrial loans [11 percent], and municipal loans [1 percent]. The bank's real estate portfolio primarily consists of 1-4 family residential [36 percent], commercial [63 percent], and agricultural loans [1 percent]. The bank's primary business is originating retail loans to customers in and around its assessment area. Net loans and leases to total assets equal 72.95 percent as of December 31, 2005.

LNB also operates North Coast Community Development Corporation, [NCCDC] as a subsidiary providing qualified businesses with debt financing. NCCDC offers commercial loans with preferred interest rates on projects meeting the standards for the New Markets Tax Credit Program. Activities of NCCDC were considered when drawing conclusions of the bank's CRA performance.

LNB received a "Satisfactory" CRA rating in the previous Public Evaluation dated October 7, 2002.

There are no current financial or legal impediments that prevent the bank from meeting community needs.

DESCRIPTION OF CLEVELAND-ELYRIA-MEDINA MSA ASSESSMENT AREA

The bank's assessment areas meets the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

The Cleveland-Elyria-Medina [MSA 17460] consists of 693 geographies spread throughout five counties. For LNB's full-scope AA, LNB chose 87 of the geographies in Lorain and Cuyahoga County as its AA that encompass the bank's offices. Seventy-nine percent (or 69 geographies) of the AA are located in Lorain County with the remaining geographies located in the western portion of Cuyahoga County. In Lorain County, the bank's AA includes the cities of Lorain and Elyria. All the low- and moderate income geographies within the bank's AA are located in these cities. In Cuyahoga County, the bank's AA includes the cities and townships of Bay Village, Olmsted Falls, North Olmsted and Westlake. Of the 87 tracts in the AA, three are low-income, 20 are moderate-income, 38 are middle-income, and 26 are upper-income.

The Department of Housing and Urban Development [HUD] updated median family income for the assessment area for the year 2005 is \$60,850. The 2000 Census Bureau lists the assessment area population at 329,535 persons comprising 90,157 families. Of these families, 16.49 percent are low-income, 17.75 percent are moderate-income, 23.61 percent are middle-income and 42.14 percent are upper-income. Twenty-eight percent of the household income in the AA is derived from social security. Households with income below the poverty level are 8 percent with 3 percent of the households relying on public assistance. Owner-occupied housing units comprise 73 percent of the AA. The housing units are primarily one-to-four family with a median housing

value of \$122,329. Demand for new housing has slowed due to lack of new employment opportunities and uncertainty regarding continued employment in existing industries as major employers continue to downsize, close facilities or move operations out of the state.

The annual average 2005 unemployment rate for the assessment area exceeds both state and national averages. According to the State of Ohio Bureau of Labor Market Information, the unadjusted average unemployment rate for 2005 for Ohio was 5.6 percent versus the national unadjusted unemployment rate of 4.6 percent. The 2005 average unemployment rate for Lorain and Cuyahoga Counties were 5.8 percent and 5.7 percent, respectively. As of December 2005, the unemployment rate for the MSA is 6.6 percent.

The local economy is slowly rebounding with concerted efforts to find new businesses to relocate in the county and expand existing businesses. Economic Development organizations such as Main Street Elyria and Main Street Lorain are actively pursuing projects to retain existing businesses and upgrade their respective downtown environments. The Lorain County Economic Development Commission has developed a strategic initiative plan to stimulate new business development to offset current downsizing trends.

The current composition of industries within the AA includes national trade, inter/intra-state trade, manufacturing, government, retail, educational, health care and social assistance institutions. Major employers include Ford Motor Corporation, Nordson Corporation, Republic Engineered Products, Invacare Corporation and Emerson Electric/Ridge Tool.

We identified the community's credit needs by contacting representatives from local community and economic development organizations along with discussion with bank management. We identified the following credit and non-credit needs in this AA:

- New construction and permanent financing for single-family homes and multi-family units in low- and moderate-income neighborhoods.
- Continuation of affordable mortgage programs [purchase and rehabilitation] for low- and moderate-income households.
- Corporate contributions to fund general operating expenses and financial literacy classes with local affordable housing organizations.
- Membership on local community organization boards to provide technical assistance with evaluating financial statements.

LNB is a major local lender that competes with local community banks, credit unions and branches of regional & national institutions within its AA. LNB's major competitors within its AA and their corresponding deposit market share include First Merit Bank N.A. (13 percent), First Federal Savings & Loan of Lakewood (11 percent), National City Bank (11 percent), and Fifth Third Bank (9 percent). Major small business competitors include GE Capital Corporation, American Express Centurion Bank, Buckeye Community Bank and National City Bank. LNB's deposit market share for its AA is 8 percent according to June 2005 FDIC deposit information.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our performance evaluation was based on the following factors. As a Home Mortgage Deposit Act (HMDA) reporter for home mortgage loans, we placed more weight on the bank's home mortgage loan performance. Our conclusions are based on all residential real estate loans originated by the bank during the evaluation period, with consideration also given to small business loan performance based on a sample of these loans originated during our evaluation period.

Lending Test

Loan-to-Deposit Ratio

LNB's loan-to-deposit ratio is excellent given the bank's size, financial condition, and the AA credit needs.

LNB's loan-to-deposit (LTD) ratio as of December 31, 2005 was 91.14 percent and its average LTD ratio over the previous 14 quarters was 90.65 percent.

For analysis purposes, LNB's current and 14-quarter average LTD ratios were compared with a peer group consisting of banks of various sizes and similar purpose with total assets between \$300 million & \$1 billion with three or more branches in a metropolitan area. The analysis shows LNB's LTD ratios are well above the peer group's December 2005 LTD ratio of 85.45 percent and the 14-quarter average of 83.10 percent.

Lending in Assessment Area

LNB's record of lending in the assessment area is satisfactory. Nearly 78 percent of the number of loans and 66 percent of loan dollars originated by the bank during the evaluation period are located within its AAs. These percentages are based on all home mortgage loans originated by the bank during the evaluation period and a sample of small business loans originated during the evaluation period as the bank did not submit this information to regulatory agencies for 2005.

The following table details LNB's lending in the AA by number of loan originations and dollar volume during the evaluation period.

Loans Originated within the Assessment Area								
Borrower Loan Type	Inside AA				Outside AA			
	#	%	\$	%	#	%	\$	%
Home Purchase	89	73.55	11,241	68.32	32	26.45	5,212	31.68
Home Improvement	50	80.65	1,481	54.79	12	19.35	1,222	45.21
Home Refinance	157	78.50	15,267	60.68	43	21.50	9,895	39.32
Home Mortgage	296	77.28	27,989	63.15	87	22.72	16,333	36.85
Small Business	18	90.00	6,148	82.69	2	10.00	1,287	17.31
Total	314	77.92	34,137	65.96	89	22.08	17,620	34.04

Source: 2004 and 2005 HMDA data and 2000 US Census data. Also LNB Small Business Trial.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall lending to borrowers of different income levels and businesses of different sizes is good and reflects good penetration. Based on volume, we placed greater weight on LNB's mortgage lending performance as previously noted.

LNB offers Local Lender Loan programs targeted to low- and moderate-income customers and for properties in low- and moderate-income geographies. The First Mortgage Program is a fixed rate loan offering reduced terms & fees for properties valued below \$100,000. The Home Improvement Loan Program offers fixed-rate loans of \$500 to \$7500 with reduced rates and fees as well. Programs providing home mortgage loans to low- and moderate-income households and geographies was identified as a credit need of the community.

LNB's distribution of mortgage lending reflects good penetration among individuals of different income levels, particularly with respect to low- and moderate-income borrowers.

Distribution of Lending by Borrower Income Level					
Borrower Income Level	Home Mortgage Loans – Purchase in the Lorain-Cleveland AA				Percentage of Families in AA
	# of loans	% of loans	\$ of loans	% of loans	
Low	10	17.54	548	10.21	16.49
Moderate	11	19.30	764	14.23	17.75
Middle	17	29.82	1,899	35.37	23.61
Upper	19	33.34	2,158	40.19	42.14

Source: 2004 and 2005 HMDA data and 2000 US Census data. NA loans not included in above sample results.

LNBs distribution of home purchase loans reflects good penetration among individuals of different income levels. LNB's origination of home purchase loans to low- and moderate-income borrowers exceeds the percentages of low- and moderate-income families in the AA.

Distribution of Lending by Borrower Income Level					
Borrower Income Level	Home Mortgage Loans – Home Improvement in the Lorain-Cleveland AA				Percentage of Families in AA
	# of loans	% of loans	\$ of loans	% of loans	
Low	12	26.67	108	9.31	16.49
Moderate	15	33.33	382	32.93	17.75
Middle	10	22.22	278	23.97	23.61
Upper	8	17.78	392	33.79	42.14

Source: 2004 and 2005 HMDA data and 2000 US Census data. NA loans not included in above sample results.

LNB's distribution of home improvement loans reflects excellent penetration among individuals of different income levels, especially low- and moderate-income borrowers. LNB's origination of home improvement loans to low- and moderate-income borrowers significantly exceeds the percentages of low- and moderate-income families in the AA.

Distribution of Lending by Borrower Income Level					
	Home Mortgage Loans – Refinance in the Lorain-Cleveland AA				Percentage of Families in AA
Borrower Income Level	# of loans	% of loans	\$ of loans	% of loans	
Low	26	18.57	1,066	8.97	16.49
Moderate	32	22.86	2,122	17.85	17.75
Middle	36	25.71	3,009	25.31	23.61
Upper	46	32.86	5,691	47.87	42.14

Source: 2004 and 2005 HMDA data and 2000 US Census data. NA loans not included in above sample results.

LNB's distribution of refinance loans reflects good penetration among individuals of different income levels, especially moderate-income borrowers. LNB's origination of refinance loans to low- and moderate-income borrowers exceeds the percentages of low- and moderate-income families in the AA.

Overall lending to businesses of different sizes reflects excellent penetration. Conclusions are based on a sample of small business loans originated by the bank during the evaluation period.

LNB's distribution of lending to businesses of different sizes reflects excellent penetration. The number of businesses within the AA having reported gross annual revenues below \$1 million (small businesses) comprise 63.08 percent of all businesses according to Dunn & Bradstreet data. The number and dollar percentages of loans originated by LNB to small businesses significantly exceeds the percentage of small businesses at 90.32 percent and 85.02 percent, respectively.

Geographic Distribution of Loans

LNB's geographic distribution for both mortgage lending and small business lending is excellent.

LNB's geographic distribution of home mortgage loans reflects excellent performance.

Geographic Distribution of Lending					
	Home Mortgage Loans – Purchase in the Lorain-Cleveland AA				Percentage of Owner-Occupied Housing in AA
Borrower Geography	# of loans	% of loans	\$ of loans	% of loans	
Low	0	0	0	0	0.89
Moderate	17	19.10	1,281	11.40	16.01
Middle	60	67.42	6,818	60.65	47.30
Upper	12	13.48	3,142	27.95	35.81

Source: 2004 and 2005 HMDA data and 2000 US Census data

LNB’s geographic distribution of home purchase loans reflects good performance for its AA. The bank’s origination of home purchase mortgage loans in moderate-income geographies exceeds the percentage of owner-occupied housing units in moderate-income geographies. Although LNB did not originate any home mortgage purchase loans in low-income geographies, the performance is reasonable given the low percentage of owner-occupied housing units in this geography. Also, demand for new housing has slowed due to lack of new employment opportunities and uncertainty regarding continued employment in existing industries as major employers continue to downsize, close facilities or move operations out of the state. In addition, 8 percent of the households in the AA are below the poverty level with 3 percent relying on public assistance.

Geographic Distribution of Lending					
	Home Mortgage Loans – Home Improvement in the Lorain-Cleveland AA				Percentage of Owner-Occupied Housing in AA
Borrower Geography	# of loans	% of loans	\$ of loans	% of loans	
Low	5	10.00	69	4.66	0.89
Moderate	16	32.00	466	31.47	16.01
Middle	25	50.00	801	54.08	47.30
Upper	4	8.00	145	9.79	35.81

Source: 2004 and 2005 HMDA data and 2000 US Census data

LNB’s geographic distribution of home improvement mortgage loans reflects excellent performance for its AA. The bank’s origination of home improvement mortgage loans in low- and moderate-income geographies significantly exceeds the percentages of owner-occupied housing units in low- and moderate-income geographies.

Geographic Distribution of Lending					
	Home Mortgage Loans – Refinance in the Lorain-Cleveland AA				Percentage of Owner-Occupied Housing in AA
Borrower Geography	# of loans	% of loans	\$ of loans	% of loans	
Low	3	1.91	62	0.41	0.89
Moderate	42	26.75	2,933	19.21	16.01
Middle	95	60.51	9,556	62.59	47.30
Upper	17	10.83	2,716	17.79	35.81

Source: 2004 and 2005 HMDA data and 2000 US Census data

The bank’s geographic distribution of refinance loans reflects excellent performance for its AA. The bank’s origination of refinance loans in low-income geographies exceeds the percentage of owner-occupied housing units in low-income geographies. The bank’s origination of refinance loans in moderate-income geographies significantly exceeds the percentage of owner-occupied housing units in moderate-income geographies.

Geographic Distribution of Lending by Small Business Loans					
Borrower Geography	Small Business Loans in the Lorain-Cleveland AA				Percentage of Non-Farm Businesses in AA
	# of loans	% of loans	\$ of loans	% of loans	
Low	4	12.90	934	10.87	3.54
Moderate	7	22.58	770	8.96	20.46
Middle	15	48.39	5,818	67.73	43.04
Upper	5	16.13	1,069	12.44	37.33
Total	31	100.00	8,591	100.00	100.00

Source: 2000 US Census data and LNB small business loan sample results.

LNB's geographic distribution of small business loans reflects excellent performance for its AA. LNB's origination of small business loans in low- income geographies significantly exceeds the percentage of non-farm businesses in low- income geographies. LNB's origination of small business loans in moderate-income geographies exceeds the percentage of non-farm businesses in moderate-income geographies.

Limited Scope Areas

Based on limited scope reviews, LNB's performance under the lending test in the Sandusky MSA AA is comparable to the bank's overall Outstanding performance under the lending test.

LNB's representation in the Sandusky MSA AA is very limited; it has no branches and only one ATM located there. This was considered in the overall conclusions, and did not negatively impact the rating.

An evaluation of the geographic distribution of loans is not meaningful in the limited-scope AA as there are no low- or moderate-income tracts in this AA. There were no small business loans in our sample made in the Sandusky MSA during the evaluation period.

LNB's distribution of home improvement loans reflects excellent penetration among individuals of different income levels, especially moderate-income borrowers. LNB's origination of home improvement loans significantly exceeds the percentage of percentage of moderate-income families

Borrower Income Level	Sandusky MSA Limited-Scope AA								Percentage of Families in AA***
	Home Purchase*		Home Improvement*		Home Refinance*		All Mortgage Loans* **		
	% # of loans	% \$ of loans	% # of loans	% \$ of loans	% # of loans	% \$ of loans	% # of loans	% \$ of loans	
Low	0.00	0.00	0.00	0.00	16.67	16.46	12.00	10.52	13.59
Moderate	0.00	0.00	33.33	28.17	27.78	23.71	24.00	16.12	17.19
Middle	25.00	26.57	0.00	0.00	22.22	26.22	20.00	25.43	25.56
Upper	75.00	73.43	66.67	71.83	33.33	33.61	44.00	47.93	43.66

Source: 2004 and 2005 HMDA data and 2000 US Census data.

Community Development Test

LNB's community development performance through its record of retail services, community development loans, qualified investments, and community development services demonstrates excellent responsiveness to community development needs in its AA.

Community Development Loans

LNB originated eight community development loans for \$5 million. Four loans were made to organizations whose purpose is to revitalize and stabilize low- and moderate-income geographies. Three loans were made to finance small business growth or stabilization. One loan was made to an organization providing housing related community services and funding for rehabilitation of homes owned by low- and moderate-income persons. All of these loans relate to projects within the Lorain-Cleveland AA and address community needs.

LNB is one of two banks in the AA participating with the Lorain County Area Wide Micro Enterprise Loan Program. Recipients of these loans are small businesses seeking funding to start new operations or lacking adequate capital or experience for conventional funding. Lorain County approves the loans and the bank provides funding. These loans are not guaranteed by Lorain County although the County administers the loans and receives the loan payments. All recipients must undergo small business training to participate. The bank has committed and disbursed \$100 thousand to this program.

Qualified Investments

LNB also implemented a CDC named North Coast Development Corporation [NCDC] utilizing the New Market Tax Credit [NMTC] program recently implemented by Congress. The NMTC Program was expected to stimulate investments that would later facilitate economic and community development in distressed communities. LNB set aside \$9 million in funding during the evaluation period and has funded \$5 million in projects as detailed above. The final \$4 million has been approved for an affordable housing project which had not yet been funded as of the end of our evaluation period. As this was the first financial institution in the area to utilize NMTC program, it is considered a positive impact on product innovation and flexibility.

During the evaluation period, LNB's qualified investments in the Lorain-Cleveland AA included the purchase of 5 municipal bonds totaling \$637 thousand. In addition, LNB made 37 donations to 23 organizations totaling \$395 thousand. All funds are specifically targeted to benefit low- and moderate-income persons or support organizations whose major purpose is revitalizing low- and moderate-income census tracts within the AA.

Community Development Services

Forty-five percent of LNB's branches and 38 percent of LNB's ATMs are located within low- and moderate-income census tracts and compares favorably with the 44 percent of low- and moderate-income census tracts within the AA. Seven are stand-alone units at local retail establishments.

In addition to LNB's full-service branches and ATM locations, LNB offers TeleBanker on-line services, providing customer access to consumer and business accounts. LNB provides the Tele-Pay bill payment system, allowing customer to make bill payments directly from their deposit accounts. LNB recently implemented an inquiry-only website where customers can access accounts, check balances, view statements and cancelled checks, and transfer funds between accounts. LNB offers free checking accounts to all its customers.

LNB offers a full range of consumer and commercial banking products and services at all its full-service branches. The bank offers two loan products specifically targeted to low- and moderate-income persons and geographies as part of its Loan Lender Program.

The "First Mortgage" Program is a five-year fixed-rate loan with a down-payment as low as 5 percent, no private mortgage insurance, reduced fees and closing costs for properties valued at \$100,000 or less. The "Home Improvement Loan" Program is a fixed-rate loan in amounts of \$500 to \$7,500 at an annual percentage rate below LNB's regular home improvement rate with no fees or service charges.

Through its employees, LNB is involved in a variety of community development services. Many of the bank's employees [Vice President to Senior Vice President levels] are involved in non-profit organizations that provide services for low- and moderate-income individuals or economic development for small business. LNB is represented in eleven of the major community groups active in meeting the housing, service and economic needs of low- to moderate-income households and geographies. This includes the CRA Officer also serving on a number of economic development organizations in Elyria, Lorain and Oberlin devoted to revitalizing business districts throughout Lorain County.

LNB also sponsors through NCDC periodic seminars regarding starting a small business, handling personal finances, and guidance to first-time homebuyers. Approximately two meetings per quarter are conducted throughout the bank's AA and targeted to low- and moderate-income households and geographies.

Responses to Complaints

LNB has not received any written complaints regarding its performance meeting the credit and deposit needs of its AA during the 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.