



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

November 13, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Lake National Bank  
Charter Number: 24540

7402 Center Street  
Mentor, OH 44060

Office of the Comptroller of the Currency

Cleveland Field Office  
3 Summit Park Drive Suite 530  
Independence, OH 44060

**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 Satisfactory.**

Lake National Bank (LNB) has a good record of addressing community credit needs.

The major factors supporting the bank's ratings include:

- The bank's net loan to deposit ratio is good.
- The bank's record of lending in the assessment area is good.
- The bank's record of lending to borrowers of different income levels is adequate.
- The bank's geographic distribution of home mortgage lending is satisfactory.

## **SCOPE OF EXAMINATION**

Conclusions regarding the bank's lending performance are based on home mortgage loans from January 18, 2005 through December 31, 2006.

Home mortgage loan products include purchase and refinance. As a new institution, LNB chose to make only home mortgage purchase and refinance loans during its start-up phase. All home mortgage loans made during the evaluation period were used for our analysis after the data integrity for these loans was found to be sufficient. The bank's primary assessment area is Lake County. Lake County lies within the Cleveland-Lorain, Ohio MSA and comprises the smallest county in the five county MSA.

Our review included contacting a local housing and economic development group to ascertain community credit needs. Each contact also stated the local financial institutions offering products to help meet these needs. These findings will be addressed in the Description of the Assessment Area portion of the evaluation.

## **DESCRIPTION OF INSTITUTION**

Lake National Bank (LNB) began operations as a new bank on January 18, 2005. LNB is headquartered in Mentor, Ohio, which is located in the Cleveland-Lorain, OH MSA #17460. As of December 31, 2006, LNB reported total assets of \$46 million. At present, the bank does not have a holding company nor any significant subsidiaries or affiliates.

LNB is a full-service lender offering various loan and deposit products. LNB primarily offers conventional home mortgage loans and refinance loans. LNB customers have access to a full array of retail products which include a variety of individual savings and checking account products as well as residential and consumer loans. In addition, LNB offers business checking accounts and commercial loans.

As of December 31, 2006, net loans represent 69.93% of total assets and consist primarily of real estate loans. Real estate loans make up 93.89% of average gross loans (AGL). Commercial and loans to individuals comprise the remaining 6.11% of AGL. Broken down by product line, real estate loans are comprised of: 57.51% 1-4 family residential real estate, 22.86% non-farm non-residential real estate loans; 16.17% construction and land development loans, and 3.46% multifamily loans.

The bank operates one full-service main office in Lake County and has no branches. This location offers drive-up facilities and an ATM. The bank has not opened any new branches but has moved the main office one mile and a half from its original location at 8585 Market Street, Mentor, Ohio, 44060.

LNB has historically been primarily a retail bank making home mortgage and consumer loans. The bank is seeking to expand its commercial business and is focusing future efforts toward small business customers in the community.

Conclusions regarding the Performance Criteria are based on data collected for calendar years 2005 through December 31, 2006. The evaluation of the bank's performance is based upon two years worth of home mortgage loan data.

As part of the CRA evaluation, LNB's information on home mortgage loans was tested for accuracy. The test included an evaluation of LNB's processes to ensure that data are reliable. No significant errors were noted in the review of this data that would affect CRA conclusions.

As a new institution, this is the bank's first CRA Public Evaluation.

Although there are no legal or financial factors impeding LNB's ability to help meet the credit needs of the communities it serves, there are other factors which can limit the amount of loan growth which can occur during the early stages of the bank's operation. LNB's Tier 1 Capital Level is \$9.1 million representing 22.2 percent of adjusted average assets as of December 31, 2006.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

LNB has a single assessment area encompassing Lake County. It meets the requirements of the regulations and does not arbitrarily exclude any low-or moderate-income areas.

### **Cleveland – Lorain MSA #17460 – Lake County**

This AA consists of the 64 geographies comprising Lake County. This county is included in the Cleveland-Lorain MSA. Within the AA, there are no low-income geographies, three moderate-income geographies (4.69 percent of the geographies), forty-four middle-income geographies (68.75 percent of geographies), and seventeen upper-income geographies (26.56 percent of geographies).

The unemployment rate as of December 2006 for Lake County was 4.7 percent, slightly higher than the Ohio state unemployment rate of 4.5 percent and but significantly lower than the national rate of 5.6 percent. The county economy centers on manufacturing, retail trade and healthcare. Major employers include ABB Inc., Avery Dennison Corporation, FirstEnergy Corporation, Lubrizol Corporation and Steris Corporation. The city of Mentor is the largest city in the county with a population of approximately 52,000.

The HUD 2006 adjusted median family income in the AA is \$61,400. The 2000 census bureau lists the assessment area population at 227,511, which comprises 62,786 families. Of these families, 13.28 percent in the AA are low income, 18.50 percent of the families are moderate-income, 25.30 percent are middle-income, and 42.92 percent are upper-income. In addition, approximately 5 percent of the households are below poverty level with 2 percent relying on public assistance. Twenty-seven percent of the household income is derived from social security and 20 percent of the households are retired. Housing units consist of 74 percent owner-occupied and 22 percent rental occupied. The housing units are primarily one-to-four family with a median housing value of \$132,439.

We made one contact with an affordable housing and social service agency within the community to discuss the community credit needs.

The following credit and non-credit related needs were identified in this AA:

- Investing and supporting organizations providing credit counseling, home-ownership training & financial literacy.
- Establish loan programs providing relief to LMI borrowers who are threatened by foreclosure.
- Home improvement loans for seniors to increase mobility accessibility or for window replacement and heating, plumbing, and roof repairs around the house.

Competitors in the AA include local community and large regional banks as well as local thrifts. A total of nineteen financial institutions competed for loans and deposits in this AA during the evaluation period. Major competitors in the AA include J.P. Morgan Chase Bank, N.A, Key Bank N.A., Charter One Bank N.A., and National City Bank. Key Bank and National City Bank are headquartered in nearby Cleveland, Ohio. Market share data among these competitors are 14 percent, 11 percent, 11 percent, and 9 percent, respectively. Lake National Bank market share for this AA is 1 percent.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

While the bank was not a HMDA reporter during the evaluation period, our conclusions are based on all home mortgage loans originated by the bank during the period. These classes of home mortgage products include home purchase and home refinance loans. As previously noted, the bank did not make any home improvement loans during the evaluation period.

## **Loan-to-Deposit Ratio**

The bank's net loan-to-deposit ratio is good and meets the standards for "satisfactory" performance given the bank's size, financial condition, and credit needs.

For analysis purposes, the bank's current and 8-quarter average LTD ratios were compared with a peer group of ten banks within the AA consisting of various sizes and similar purpose. The analysis shows the bank's loan-to-deposit ratio (LTD) as of December 31 2006 was 87.62 percent which compares unfavorably to the peer average of 99.37 percent.

When shown over the previous 8 quarters the LTD ratio equals 65.51 percent also comparing unfavorably to the peer average of 98.68 percent.

However, due to the bank's newly chartered independent status in comparison with the established peers in its AA, consideration was given to its structure and a second peer group was chosen. This peer group consisted of thirteen independent banks with total assets of \$70 million or less with one office in the state of Ohio. This peer group more closely reflects LNB's institution description and consists of banks in operation over the same evaluation period as LNB.

Using the bank's current and 8-quarter average LTD ratios with the independent bank peer group noted above shows the bank's loan-to-deposit ratio (LTD) as of December 31 2006 was 87.62 percent which compares favorably to the independent bank peer average of 85.15 percent. When shown over the previous 8 quarters the LTD ratio equals 65.51 percent and is less than the peer average of 76.66 percent.

Although the bank's 8-quarter figures are below those of peer, a satisfactory performance is given based on the following factors. LNB opened on January 18, 2005 and was not well know to the community. The first two years of a bank's existence is one of slow growth as its name and products become visible to the customers within their market area. Financial constraints placed on all newly-opened institutions limits the amount of growth which can occur. As the size of deposits grows, the bank can subsequently increase its lending efforts as well. The increasing trend in the loan-to-deposit ratio over the evaluation period is indicative the bank's commitment to provide for the credit needs of its community once it had the financial capacity to do so.

## **Lending in Assessment Area**

Lake National Bank's record of lending within its assessment area is good and meets the standards for "satisfactory" performance.

<b>Record of Lending within Assessment Area</b>								
	<b>Within Assessment Area</b>				<b>Outside Assessment Area</b>			
	#	%	\$	%	#	%	\$	%
Purchase	25	69.44	4,419	74.95	11	30.56	1,477	25.05
Home Improvement	0	0%	0	0%	0	0%	0	0%
Refinance	23	88.46	3,921	93.11	3	11.54	290	6.89
<b>Total Loans</b>	48	77.42	8,340	82.52	14	22.58	1,767	17.48

1. Dollar amount are as thousands.

2. Total is based on all home mortgage loans made by LNB for years 2005-2006

The bank made 69.44 percent of its home purchase loans and 88.46 percent of its home refinance loans within its assessment area. As a new institution, LNB chose to make only home mortgage purchase and refinance loans during its start-up phase. This Public Evaluation covers the bank's lending activity of purchase and refinance home mortgage loans originated during the evaluation period.

### **Lending to Borrowers of Different Incomes**

LNB's borrower distribution for home mortgage lending is adequate and reflects reasonable penetration.

Overall lending to borrowers of different income levels is adequate and reflects reasonable penetration. The tables below detail the bank's lending to borrowers of different income levels by number of loan originations and dollar volume during the evaluation period.

<b>Distribution of Lending by Borrower Income Level</b>					
	<b>Home Mortgage Loans - Purchase</b>				<b>Percentage of Families in AA</b>
	<b># of loans</b>	<b>% of loans</b>	<b>\$ of loans</b>	<b>% of loans</b>	
Low	2	8.00	185	4.19	13.28
Moderate	2	8.00	216	4.89	18.50
Middle	6	24.00	1,248	28.24	25.30
Upper	15	60.00	2,770	62.68	42.93

Source: 2005 through 2006 home mortgage loan data and 2000 US Census data.

LNBs distribution of home purchase loans reflects reasonable penetration among individuals of different income levels.

Although LNB's origination of home purchase loans to low- and moderate income borrowers is less than of the percentage of low- and moderate income families, the bank was a newly established independent financial institution that had to market the availability of its lending products first to establish a demand in the community. Lending capacity was directly influenced by the level of deposits received and retained to provide the funding needed to make these loans. The weighted average of median housing at \$132 thousand made it difficult for families to find affordable housing within the AA. LNB's single office in Mentor versus the multi-branch network of its competitors throughout the AA held a competitive advantage over LNB throughout the timeframe of the evaluation period. For these reasons, LNBs distribution of home purchase loans by borrower income level is

considered adequate.

LNBs distribution of home improvement loans is not applicable since the bank did not make any of these loans during the evaluation period.

<b>Distribution of Lending by Borrower Income Level</b>					
	Home Mortgage Loans – Refinancing				Percentage of Families in AA
	# of loans	% of loans	\$ of loans	% of loans	
Low	0	0	0	0	13.28
Moderate	5	21.74	660	16.83	20.42
Middle	7	30.43	792	20.20	25.30
Upper	11	47.83	2,469	62.97	42.93

Source: 2005 through 2006 home mortgage loan data and 2000 US Census data.

LNBs distribution of home refinance loans reflects adequate penetration among individuals of different income levels.

The origination of home refinance loans to low- and moderate-income borrowers is somewhat below the percentage of low- and moderate-income families. As mentioned previously, many of the unique factors facing LNB as a newly opened independent financial institution under home purchase loans affected the bank's distribution of home refinance loans as well.

### **Geographic Distribution of Loans**

LNB's geographic distribution for home mortgage lending is satisfactory.

We considered the following factors in assessing the bank's lending performance in low- and moderate-income geographies. For home mortgage loans, our review focused on the bank's lending performance relative to the level of owner-occupied units in low- and moderate-income geographies. As previously noted, the bank did not make any home improvement loans during the evaluation period.

The bank's geographic distribution of home mortgage loans reflects satisfactory performance.

The AA has no low-income geographies. Although the bank's origination of home mortgage loans in moderate-income areas falls below the percentage of owner-occupied housing in this AA, this performance is considered satisfactory given that: (1) there is limited opportunity to lend as less than three percent of its owner-occupied housing units are located in moderate-income geographies. (2) Rental properties in this AA comprise approximately twenty-four per cent of all housing units of the AA and approximately four per cent of housing units are vacant. (3) All the moderate-income geographies are located in Painesville, a community approximately ten miles east of Mentor. (4) Competition is keen in both Painesville and Mentor with LNB having only 1% of the market share and a single office in Mentor versus the multi-branch network of its competitors within the AA.

Census Tract Income Level	Geographic Distribution – Cleveland Lorain OH MSA 17460								Percentage of Owner-Occupied 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	
<b>Low</b>	0	0	0	0	0	0	0	0	0.00
<b>Moderate</b>	0	0	0	0	0	0	0	0	2.85
<b>Middle</b>	17	68.00	0	0	13	56.52	30	62.50	64.11
<b>Upper</b>	8	32.00	0	0	10	43.48	18	37.50	33.04

Source: 2005 through 2006 home mortgage loan data and 2000 US Census data.

### Responses to Complaints

CNB has not received any written complaints regarding its performance in 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.