



INTERMEDIATE SMALL BANK

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

PUBLIC DISCLOSURE

September 17, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Commerce National Bank
Charter Number 22236**

**3650 Olentangy River Road, Suite 100
Columbus, OH 43214**

**Comptroller of the Currency
Central Illinois & Central Indiana
8777 Purdue Road, Suite 105
Indianapolis, Indiana 46268**

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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's loan-to-deposit ratio is excellent and much higher than that of similarly situated competitors.
- The bank utilizes a significant amount of brokered deposits largely obtained from outside of the assessment areas (AAs) and originates loans principally within its AAs.
- The bank made a substantial majority of its loans within its AAs.
- Borrower distribution is good. CNB originated the majority of its business loans to businesses with revenues of less than \$1 million.
- Community Development (CD) lending is good. The bank originated an important amount of CD loans during the evaluation period.
- CD Investments are good. CNB made numerous investments benefiting organizations that provide essential services to low- and moderate-income individuals and provide affordable housing.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance under the Lending and Community Development (CD) Tests. The evaluation of the Lending Test covers performance from January 1, 2004, through June 30, 2006, excluding CD loans. The evaluation period for CD loans, investments, and services was July 17, 2001 through September 17, 2006. We evaluated performance only of business loans, the bank's primary product. Home purchase, home mortgage refinance, and home improvement loans were not included in the evaluation because of their relatively small number. To conduct our analysis, we utilized the bank's loan records. We conducted a Data Integrity review of these records and found the information to be accurate and reliable for use in this examination. Using these records provided a more accurate picture of the bank's performance than a sample of the loan files.

DESCRIPTION OF INSTITUTION

Commerce National Bank (CNB) is a \$500 million intrastate bank headquartered in Columbus, Ohio. On March 1, 2003, CNB merged with First Merchants Corporation (FMC). CNB continues to operate independently with its own board of directors. The bank is 100 percent owned by FMC, a \$3.4 billion holding company headquartered in Muncie, Indiana. FMC owns eight banks which operate in Indiana and Ohio, an insurance company, and a separately chartered Trust Company. FMC is also the majority shareholder in a title insurance company.

CNB was organized in 1991 to serve the needs of small and middle market businesses, their owners, management, and self employed professionals. The bank maintains the headquarters location in Columbus and one branch in Cincinnati, Ohio. The Cincinnati branch was opened November 12, 2004. Neither location promotes consumer banking. Both are located in general commercial office buildings with limited identification. Neither office maintains drive-through tellers or ATMs. Additionally, the Cincinnati office does not maintain a night depository.

CNB has two AAs in Ohio. Both are located in MSAs; however, the Columbus AA was the primary market during the evaluation period. Both AAs received full-scope reviews.

Since the previous Performance Evaluation, July 16, 2001, the bank has grown by \$237 million or 90% in total assets. The growth is centered in commercial-industrial and commercial real estate loans. At June 30, 2006, net loans to assets equaled 84.33%. Gross loans of \$425 million were comprised of 34% residential real estate, 28% commercial real estate, 34% commercial and industrial, and 4% other loans. A large portion of the residential real estate represents investment properties acquired by the bank's business customers. The bank participates with several government programs that assist borrowers with flexible financing terms, such as the Small Business Administration, Community Capital Development Corporation, and USDA's Business and Industry Loan Program. CNB historically maintains a very high loan-to-deposit ratio and also a high level of brokered deposits. These are deposits acquired from brokers, and represent funds principally from outside the AA. The bank then lends these funds primarily within its AAs.

CNB has a major line of business that involves lending to medical professionals nationwide. Because of this business line, the "lending in-out of AA ratio" on page five is slightly weakened, although still acceptable.

The bank's AAs are described below. The headquarters office in Columbus is located in the southern portion of its AA; however, its market is more concentrated in areas to the north and northeast. These are the growth areas for the bank's customers. Newer businesses that require financing and older businesses that are expanding or adding additional locations tend to do so in the north and northeast part of the AA. Much of this area is near Interstate 270, a major interstate highway that circles the city. Conversely, many of the businesses located in the low- and moderate-income census tracts in the southern part of the AA are mature and have long standing banking relationships. Because of this structure, the bank's lending in low- and moderate-income census tracts is lower than the percent of businesses located therein as indicated on the geographic distribution tables on page seven.

There are no financial or legal impediments that hinder the bank in providing community credit needs. The bank's Tier 1 capital has averaged 7.4% over the past 3 fiscal years.

CNB received a "Satisfactory" on its previous CRA performance evaluation dated July 16, 2001.

DESCRIPTION OF COLUMBUS, OHIO ASSESSMENT AREA

The bank's AA is located within the Columbus Metropolitan Statistical Area (MSA) #18140. It is comprised of 202 census tracts. The majority of the area is north and northeast Franklin County (182 census tracts), plus 19 census tracts in Delaware County, and one in Union County. The total population of this AA is 808 thousand and it contains 52 thousand businesses. Thirty-two thousand of these businesses report annual revenues less than \$1 million. The AA contains 27 (13.3%) low-income census tracts, 46 (22.8%) moderate-income census tracts, 58 (28.7%) middle-income census tracts, and 71 (35.2%) upper income census tracts. Based on the 2000 census data, median family income is \$64,476. Franklin County is the second most populous county in the state with 1.1 million residents. It also contains the state capital and one of the largest universities in the nation. Business conditions in the Columbus MSA are good. Unemployment in Franklin County is estimated at 4.9% per the Ohio Job and Family Services August 2006 report. Unemployment in Delaware County is 3.5% and Union County is 4.5%. The state of Ohio is estimated at 5.7% (seasonally adjusted) and the United States at 4.7%. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

One community contact indicated there were no business lending needs that were unmet by the banks serving the area. There are a large number of community service organizations in the area.

Competition for financial services within the AA is intense and includes several branches of multinational and regional banks, local community banks, credit unions, and other non-bank financial service providers. CNB has only 0.3% of the total banking offices and 1.36% of total deposits in Franklin County based on the June 30, 2005 FDIC market share report.

DESCRIPTION OF CINCINNATI, OHIO ASSESSMENT AREA

CNB opened the Cincinnati branch on the east side of the city in November 2004. This office utilizes the same business strategy as the Columbus office, focusing on small business lending. This AA is centered in the Cincinnati MSA # 17140. It is comprised of 264 census tracts. The majority of the AA is Hamilton County (230 census tracts), plus 17 census tracts in Butler County, 10 in Warren County, and 13 in Clermont County. The total population of this AA is 1.07 million. It contains 59 thousand businesses. Businesses reporting annual revenue less than \$1 million total 36,620. The AA contains 40 (15.2%) low-income census tracts, 51 (19.3%) moderate-income, 102 (38.6%) middle-income and 69 (26.1%) upper-income census tracts. Two (0.8%) are reported as NA. Based on the 2000 census, median family income is \$60,825. Hamilton County is the third most populous county in the state; however, unlike Franklin County, much of the growth is outside of Hamilton County in Butler and Warren Counties to the north and northeast and in the adjacent Kentucky counties south of Hamilton County (not in the AA). Business conditions are fair to good in this four county area. Unemployment in Hamilton County stood at 5.1%, based on the Ohio Job and Family Services August 2006 report. Unemployment was 5.9%, 4.5%, and 4.8% for Butler, Warren, and Clermont Counties, respectively. The east edge of Butler County and all of Warren Counties are among the most

rapidly growing business and residential areas of the state. The areas near Interstate 75 have seen substantial development in the past five years. FDIC's State Profile for Ohio-Fall 2006 indicates foreclosures are increasing while home ownership is declining. Office rents in Cincinnati increased 5.5% annually compared to a nationwide increase of 9.7%; however, rents in Columbus and Cleveland decreased during the second quarter of 2006. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

One community contact indicated there were no business lending needs that were unmet by the banks serving the area. There are a large number of community service organizations in the area.

Competition for financial services within this AA is also very strong and includes several branches of multinational and regional banks, local community banks, credit unions and other non-bank financial service providers. CNB has 0.3% of the banking offices and 0.003% of the deposits in Hamilton County based on the June 30, 2005, FDIC market share report.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

CNB's performance in the Columbus and Cincinnati AAs is Satisfactory. Based on full-scope reviews of each AA, performance is reasonable.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered CNB's business strategy and the volume of originations. Overall, business loans were considered CNB's primary product. HMDA loans were a very small part of the bank's overall volume and were not evaluated.

The bank maintained a very high loan-to-deposit ratio during the evaluation period. In addition, the bank utilizes a significant amount of brokered deposits to fund its loan program. These deposits are generally purchased from outside of the AAs and loaned inside the AAs. The bank originated a substantial majority of its loans within its AAs. Borrower distribution is good. The bank originated the majority of its business loans to businesses with revenues of less than \$1 million. Geographic distribution is poor. CD lending and CD investments are good for a bank of its size and business focus.

Lending Test

CNB's lending test is rated Satisfactory. Based on a full-scope review, CNB's performance in the Columbus AA and in the Cincinnati AA is Satisfactory.

Loan-to-Deposit (LTD) Ratio

CNB's average LTD ratio is excellent in comparison to similarly-sized institutions. The average LTD ratio was calculated and averaged for each quarter since the last CRA examination in July 2001. We compared this ratio to those calculated for similarly situated peer banks. The average LTD for the last 20 quarters was 118.40%, well above the similarly situated banks' average ratio of 85.04%.

Lending in Assessment Area

A majority of business lending occurs within the AAs. This conclusion was based on analysis of all business loans originated between January 1, 2004 and June 30, 2006. As detailed in the table below, 73% (by number) and 69% (by dollar amount) were made in the Columbus AA and 77% (by number) and 66% (by dollar amount) were made inside the Cincinnati AA. Lending in-out of the AA is usually computed by combining all of the AAs and comparing all loans to the geographies in all AAs. In this evaluation we were able to compute the loans in and out of each AA to obtain a more accurate measurement of performance in each AA.

Table 1 - Lending in Columbus Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
#	%	#	%	\$		%	\$	%		
Business	883	72.9%	328	27.1%	1211	\$241,980	69.3%	\$107,173	30.7%	\$349,153

Source: Bank business loan records

Table 1 - Lending in Cincinnati Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
#	%	#	%	\$		%	\$	%		
Business	27	77.1	8	22.9%	35	\$8,276	65.9	\$4,288	34.1%	\$12,564

Source: Bank business loan records

Table 1 - Lending in Assessment Area Total										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
#	%	#	%	\$		%	\$	%		
Business	910	73.0	336	27.0%	1246	\$250,256	69.2	\$111,461	30.8%	\$361,717

Source: Bank business loan records

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

CNB's lending to businesses of different sizes, particularly to small businesses, reflects excellent penetration among businesses of different sizes. Our analysis is based on a review of all bank lending records for the entire evaluation period. We analyzed the correctness of this data by comparing a sample of 60 loan files to the bank's loan records and found them accurate.

Columbus AA: Lending to borrowers of different sizes in the Columbus AA is excellent. Sixty-five percent of the bank’s loans by number and 71% by dollar were originated to businesses with revenues less than \$1 million. This compares favorably to 62% of businesses with revenues of less than \$1 million located in the AA.

Table 3 – Borrower Distribution of Loans to Businesses Columbus MSA AA (18140)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	62%	7%
% of Bank Loans in AA by #	65%	35%
% of Bank Loans in AA by \$	71%	29%

*Source: Bank loan records, 2005 Business Geodemographic Data. * 31% of AA businesses did not report revenue*

Cincinnati AA: Lending to borrowers of different sizes in the Cincinnati AA is good. Seventy percent of the bank’s loans by number and 50% by dollar were originated to businesses with revenues less than \$1 million. This compares favorably to 62% of businesses with revenues of less than \$1 million located in the AA.

Table 3a – Borrower Distribution of Loans to Businesses Cincinnati MSA AA (17140)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	62%	8%
% of Bank Loans in AA by #	70%	29%
% of Bank Loans in AA by \$	50%	50%

*Source: Bank Loan records; 2005 Business Geodemographic Data. * 30% of AA businesses did not report revenue*

Geographic Distribution of Loans

The geographic distribution of loans is poor. Geographic distribution in the Columbus AA is poor and in the Cincinnati AA it is also poor. Columbus is weighted more heavily because of the much larger volume of lending.

Columbus AA: Geographic distribution of business loans in this AA is poor. Bank loans to businesses located in low- and moderate-income geographies are below the percent of businesses located therein. However, as discussed in the Description of Institution above, the bank’s market is new and expanding businesses, many of whom choose to locate in the north and northeast portion of the AA. These areas do not contain any low- or moderate-income geographies. The bank’s headquarters is located in a low-income census tract; however, this geography is also home to a major medical complex and numerous office buildings. This census tract contains only 2,138 households and 144 businesses. The bank relocated to its current location in 2002 when it moved 6 miles south of its prior address. A major factor contributing to the move was to become more accessible to the low- and moderate-income geographies surrounding downtown Columbus. CNB originated loans in most of the census tracts in its AA. CNB has a low portion of the overall market share for business loans.

Table 5 – Geographic Distribution of Loans to Businesses Columbus MSA AA (18140)								
Census Tract Income Level	Low (0)		Moderate (0)		Middle (10)		Upper (10)	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business loans	10.1%	4.30%	15.25%	7.59%	30.66%	23.10%	43.95%	65.01%

Source: data collected by bank; D and B data.

Cincinnati AA: Geographic distribution of business loans in this AA is poor. CNB’s loans in this AA are much lower volume than in the Columbus AA. This results from the branch being open only about 19 months at the examination date. Bank loans to businesses located in low-income census tracts are less than the percent of businesses located in low-income geographies. The bank did not originate any loans to borrowers in moderate-income geographies. CNB did not originate loans in all census tracts; however, the volume over this period was very low and this office has a very small segment of the overall market share for business loans.

Table 5a – Geographic Distribution of Loans to Businesses Cincinnati MSA AA (17140)								
Census Tract Income Level	Low (0)		Moderate (0)		Middle (7)		Upper (10)	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business loans	8.46%	7.44%	15.97%	0.0%	41.57%	51.85%	33.08%	40.74%

Source: data collected by bank; D and B data.

Responses to Complaints

There were no complaints regarding the bank’s CRA performance 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.

Community Development Test

CNB’s CD performance is good.

Columbus AA: The bank’s CD performance in the full-scope AAs demonstrates adequate responsiveness to CD needs through qualified investments and CD services, considering the bank’s capacity and the need and availability of such opportunities for CD in the AAs.

Cincinnati AA: CNB's performance in this AA is weaker than the Columbus AA, but considered satisfactory. This branch has been established for a short time and is much smaller in terms of loan volume and personnel. CD investments in the Cincinnati AA are appropriate and help meet the needs of low- and moderate-income individuals.

Loans

Columbus AA: During the evaluation period, the bank originated five CD loans totaling \$16 million. All these loans were from the Columbus office and benefited the Columbus AA. The loans demonstrate the bank's commitment to CD lending and include organizations that provide affordable housing to low- and moderate-income individuals, and several loans that allowed businesses to locate or expand and create or improve jobs for low- and moderate-income individuals.

Cincinnati AA: No CD loans were originated in this AA. As stated above, this office is relatively new and in the process of establishing its base in this AA.

Number and amount of qualified investments

Columbus AA: The bank's level of qualified investments is good. CNB's primary investment is a \$1 million commitment to the Community Properties Fund for Housing Limited Partnership 1. This partnership was organized by the Ohio Capital Corporation for Housing. This fund has identified three projects, all located in Franklin County, Ohio, and all involve rehabilitation of affordable housing units. The Ohio Capital Corporation is a widely known organization that has developed and renovated many affordable housing units in every region of Ohio. At the examination date, CNB had invested \$528 thousand and is committed for an additional \$472 thousand as rehabilitation work progresses. Donations to CD organizations total \$35 thousand to eleven organizations that help meet the needs of low- and moderate-income individuals throughout the AA. Ten of these donations were made to organizations in the Columbus AA.

Cincinnati AA: The bank's performance in this AA is weaker than the Columbus AA. The branch is relatively new and only staffed by six employees. One CD investment was made totaling \$200. This office expects its investment activity will increase as its business expands.

Extent to which the bank provides community development services

Columbus AA: Services provided by the bank are satisfactory. As outlined in the Description of Institution, this bank is primarily a business bank. Therefore, services are primarily designed to meet the needs of its business banking customers. CNB does not offer ATMs, although it does issue ATM cards for use in national ATM networks. As a special service to its business customers and their employees, the bank has made arrangements with a local check cashing organization to cash payroll checks free of charge. The bank issues courtesy cards to employees who can cash their checks at 12 locations around Columbus, plus seven other locations in central Ohio. The Columbus bank offers a deposit pick up service to its business customers. Bank records indicate that 19% of the businesses that utilize this service are located in low- or moderate-income geographies. During the evaluation period, eight bank representatives provided CD qualifying services to 11 organizations. This represents approximately nine per cent of all bank employees. Seven of these organizations provide essential services to low- and moderate-income individuals and four provide services to organizations dedicated to promoting economic development and creating or improving jobs for low- or moderate-income geographies and individuals.

Cincinnati AA: Services provided by CNB in this AA are considered satisfactory, although weaker than those provided in the Columbus AA. As discussed earlier in this performance evaluation, Columbus is the headquarters of the bank and the area where the bank has been established longer and maintains a much larger staff. One Cincinnati branch representative provided CD services to two organizations that deliver essential services to low- and moderate-income individuals.