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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## Public Disclosure

April 2, 1998

### Community Reinvestment Act Performance Evaluation

Morgan Bank, N.A.  
Charter Number 18771

10 West Streetsboro  
Hudson, Ohio 44236

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Cleveland Field Office  
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Independence, Ohio 44131

**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 CRA performance of **Morgan Bank, N.A., Hudson, Ohio** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 31, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating:** This institution is rated *Satisfactory*.

The bank's CRA performance was evaluated for the periods 1996 and 1997.

- The bank is a very strong small business lender which is their primary focus. They made a satisfactory amount of small business loans in their assessment area. Residential real estate loan originations in their assessment area were less than an adequate amount. The bank is planning to place more emphasis on real estate and consumer lending.
- The bank originated virtually no real estate loans to low- or moderate- income families. However, most of the low- or moderate- income families are renters which represent approximately 25% of the housing units in the assessment area.
- The loan-to-deposit ratio, averaging 67% to 76% for the last two years, adds support to the bank's satisfactory lending performance.
- The geographic distribution of loans shows that out of the bank's delineated 30 census tracts, all middle- income and upper- income, approximately 18, or 40%, had no residential real estate activity. A review of commercial small business loans showed activity in at least two of the tracts that lacked residential real estate activity. However, the bank's assessment area is large in comparison to the capabilities of a one-office institution. The bank does not have automated teller machines, or alternate delivery systems to reach all areas in the assessment area. The bank primary does image advertising in the local newspaper, and customers are primarily those that live or work in Hudson. Borrowers in the assessment area can obtain services from the many other financial institutions in the area.

## **Description of Institution**

Morgan Bank, N. A., Hudson, Ohio is a small community bank with assets of \$44 million. The bank's one office is in downtown Hudson which is an upper- income census tract . The bank does not offer drive-up services. Although the bank does not have automated teller machines, they participate with the MAC network which provide automated teller services to customers.

Net loans totaled 68% of average assets as of December 31, 1997. The bank's primary focus is commercial and small business lending. The loan portfolio make up is commercial 30%, commercial real estate 26%, residential real estate 38%, and consumer 6%. The bank offers several real estate loan products, including a 3-year, 5-year, 7-year balloon loan based on a 25-year amortization. The bank's innovative lending is limited to not charging loan points.

The bank is operating under a supervisory formal agreement that requires management's attention. There are no financial constraints limiting the bank's ability to service customers.

The bank received a *Satisfactory* CRA performance at the last review in September 1995.

## **Description of MSA 080 - Akron**

### **Description of Counties**

The bank's assessment area encompasses portions of Summit and Portage Counties, both in the Akron Metropolitan Statistical Area (MSA). The assessment area consists of 30 middle- and upper- income census tracts. The Summit County delineated assessment area includes all but the lower quadrant. The Portage County delineated assessment area includes only the census tracts that border the bank's delineated tracts in Summit County. These areas comprise an approximate 15 mile radius of the bank. The area appears large in comparison to the capabilities of the bank's one office, limited personnel and marketing, and extensive competition.

The HUD adjusted median family income for the assessment area is \$44,300. Total population is 157,178. The number of low- income families total 4,741 or 11% of the 43,893 families in the assessment area. The December 1997 unemployment rates for Summit County of 4.2% and Portage County of 4% mirror the State of Ohio (unadjusted) rate of 4.3%. The following chart summarizes the demographic characteristics of the assessment area.

## **ASSESSMENT AREA DEMOGRAPHICS**

Tract Characteristic	Number of Tracts	% of total tracts	# Housing units
Low- income	0	0	0
Moderate- income	0	0	0
Middle- income	18	60%	65%
Upper- income	12	40%	35%
Total	30	100%	100%

### **Description of Local Community**

The City limits of Hudson are approximately 25 square miles. The city's population is 22,287. The local economy is very stable. Average family income is \$73,953 based on federal adjusted gross income per (1994) return. The city works to manage growth and preserve the community. The downtown area consists of main street upscale specialty stores and eateries. The downtown main street rental is excellent and is rented at a premium. The outer parameters consist of several corporations, including Little Tikes, Fabri-Centers of America, and Caliber Logistics; and regional companies, including Dairy-Mart, Alltel Western Reserve Telephone Co., and Allstate Insurance.

Locally, the bank receives strong competition from several branches of regional and multinational banks, and a few other financial institutions. There are approximately 10 other financial institutions, all in the downtown area.

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

#### **Small Business Analysis**

The majority of the bank's loans are to small businesses which are defined as "businesses with annual gross revenues of \$1 million or less. We sampled the bank's small business loan originations for 1996 and 1997 to assess the level of small business lending. The sample was based on an internally generated computer report by zip code. The following chart indicates that the majority of the bank's business loans are originated for small dollar amounts. The chart shows that 78% of the loans made during 1996 and 1997 were in amounts of \$100,000 or less.

### Small Business Loan Distribution by Loan Size, January 1996 through December 1997

Loan Size	Number of Loans	Percent	Dollar Amount of Loans	Percent
\$0-\$99,999	65	78%	1,828	26%
\$100,000-\$249,999	9	11%	1,442	21%
\$250,000+	9	11%	3,620	53%
Total	83	100%	6,890	100%

Source: Call Report

### Real Estate Lending

The bank's residential real estate lending was reviewed for a two year period, 1996 and 1997. Data listed in the Home Mortgage Disclosure Loan Application Registers (HMDA LAR) for 1996 and 1997 were used for this analysis. The following will show that the distribution of loans made to low- income families and moderate- income families is not comparable to the percentage of those families in the assessment area. As stated earlier, these borrowers are primarily renters. The bank is not a strong residential real estate lender and averages approximately 20 residential real estate loans a year. During the review period, the bank made a total of 43 residential real estate loans in its assessment area. None of these loans were to low- income families which total 4,741 and represent 11% of the 43,893 total families in the bank's assessment area. Also, the bank originated one loan (less than 1%) to moderate- income families, moderate- income families total 6,012 and represent 14% of the total families in the assessment area.

Home Mortgage Loan Origination Borrower Income Level Distribution				
Income Level of Borrower	Mortgage Loans			
	# of loans	% of Total	\$000's of loan	% of Total
Low- income	0	0%	0	0%
Moderate- income	1	0%	5	1%
Middle- income	9	21%	465	12%
Upper- income	26	61%	2,311	63%
Unknown	7	16%	897	24%
Total	43	100%	3,678	100%

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans reflects a satisfactory dispersion throughout the assessment area. The assessment area consists of 30 census tracts, 18 middle- income and 12 upper- income census tracts. Based on the geographic distribution of the 43 HMDA reportable loans originated within the bank's assessment area during 1996 and 1997, most loans are originated in the upper-income census tracts. Eighteen census tracts (eight in Portage County and 10 in Summit County), exhibited no real estate activity. Small business data was not available by census tract, information by zip code was used. Small business activity was apparent in at least two of the areas that exhibited no real estate activity. Although the analysis shows that the bank's residential real estate lending in approximately 40% of its assessment area, those areas with little or no activity are being serviced by other financial institutions, and/or are not in close proximity of the bank. For example, Twinsburg, Ohio, part of the bank's assessment area, has at least 119 financial institutions that originated residential real estate loans in that area. The bank's one office location, limited personnel and alternative delivery systems, inhibits the bank's capabilities to successfully reach the vast number of designated areas. In determining their assessment area the bank did not do an analysis of their lending activity to support which census tracts should be designated.

Income Level of Census Tracts	Distribution of Real Estate Loans in the Census Tracts of the Assessment Area	Distribution of Census Tracts in the Assessment Area by Tract's Income
Low	0	0
Moderate	0	0
Middle	36%	60%
Upper	64%	40%

### **Lending in the Assessment Area**

The bank conducts a satisfactory amount of their commercial lending within their assessment area. The bulk of residential real estate lending activity is outside of the assessment area. However, the predominance of the bank's lending activity is commercial which supports the determination of the lending assessment.

The determination of small business loan originations for 1996 and 1997 was based on an internally generated computer report by zip code. The following chart shows that an adequate number of commercial loans originated in the bank's assessment area. Primary focus was placed on commercial lending since that segment dominates the bank's lending portfolio. The following chart shows a satisfactory amount, or 55%, of the commercial loans were originated within the bank's assessment area.

Commercial Loan Originations During 1996 and 1997						
	In the Assessment Area		Out of the Assessment Area		Total originated	
	#	\$(000's)	#	\$(000's)	#	\$(000's)
1996	37	3,406	26	3,566	63	6,972
1997	50	2,990	46	3,546	96	6,536
Total	87	6,396	72	7,112	159	13,508
Percent of Total	55%	47%	45%	53%		

An analysis of the bank's Home Mortgage Data Loan Application Register for 1996 and 1997 was performed to assess the total number and dollar amounts of real estate loans made in the bank's assessment area. The following chart shows adequate activity within the bank's assessment area in 1996. However, the volume of real estate lending increased in 1997 with the majority being out of the bank's assessment area, in nearby cities.

Home Mortgage Data Application Data on Residential Lending						
	In the Assessment Area		Outside of the Assessment Area		Total Loans Originated	
	#	\$(000's)	#	\$(000's)	#	\$(000's)
1996	21	1,519	22	978	44	2,198
1997	22	2,159	38	2,532	60	4,691
Total	43	3,678	60	3,510	103	7,188
Percent of Total	42%	51%	58%	49%		

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

The bank's loan-to-deposit ratio is reasonable. The loan-to-deposit ratio averaged 67% during 1996 and 76% during 1997. The ratio is indicative of active commercial activity. The bank's average loan to deposit ratios exceeded similarly situated institutions (banks with similar asset size, similar number of branches, asset and loan portfolio composition in similar type locations). The peer average for the above time periods averaged in the mid to upper 60% range.

## **Responses to Complaints**

The bank has received no CRA related complaints since the last examination.

## **Compliance with Anti-Discrimination Laws**

The bank is in compliance with the substantive provisions of the fair lending laws. We tested a sample of purchase, refinance, and home-improvement loans to determine if credit standards were consistently applied and if rates and terms offered were similar for different borrowers. We found no evidence of discrimination.