



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 15, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Waterford Bank, National Association
Charter Number 24685

3900 North McCord Road
Toledo, OH 43617

Office of the Comptroller of the Currency

Northern Ohio Field Office
200 Public Square, Suite 1610
Cleveland, OH 44114

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 Needs to Improve.

The major factors supporting this rating include:

- *The geographic distribution of business and consumer loans reflects very poor dispersion to low- and moderate-income (LMI) geographies, and does not meet the standards for satisfactory performance.*
- *The distribution of consumer loans to borrowers of different incomes reflects very poor penetration to LMI borrowers, and does not meet the standards for satisfactory performance.*
- *The distribution of business loans to businesses of different sizes reflects reasonable penetration, and meets the standards for satisfactory performance.*
- *The bank's loan-to-deposit ratio is reasonable, and meets the standards for satisfactory performance.*

SCOPE OF EXAMINATION

This Public Evaluation covers the period from August 29, 2007 to August 15, 2011. We evaluated Waterford Bank, N.A. (WBNA) using full-scope small bank Community Reinvestment Act (CRA) procedures. The procedures evaluate the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities.

WBNA's primary lending products are business loans and consumer loans. We selected a random sample of business and consumer loans originated by the bank from January 1, 2009 to August 15, 2011 in order to evaluate the bank's lending performance related to CRA. The sample of loans is representative of the bank's business strategy since August 2007. The bank reports home loan data under the requirements of the Home Mortgage Disclosure Act (HMDA). However, we did not use HMDA data to evaluate the bank's performance because home loans are not a primary loan product.

In addition to our testing of the loan sample, we utilized U.S. Census data and information from a community contact to develop the bank's performance context, evaluate the AA, and assess the performance of financial institutions in the AA.

DESCRIPTION OF INSTITUTION

WBNA is a community bank located in Toledo, Ohio that opened in August 2007. The bank does not have any branches or automated teller machines. Management has not opened or closed any branches since the bank's inception in August 2007. WBNA is a wholly owned subsidiary of Waterford Bancorp, a single bank holding company.

WBNA offers traditional banking products and services. Business loans and consumer loans are the bank's primary loan products, with residential mortgage loans comprising a small portion of loan originations. The bank originates long-term residential mortgages and sells the loans on the secondary market. Management's primary strategic focus is on serving high net-worth individuals and their businesses.

As of June 30, 2011, WBNA reported total assets of \$352 million and tier one capital of \$35 million. Total loans less the allowance for loan losses were \$235 million, or 66.76% of the bank's total assets. The loan portfolio consists of business loans (84.24% of total loans), consumer loans (9.01%), and residential mortgage loans (6.75%).

There are not any legal or financial impediments inhibiting WBNA's ability to meet the credit needs of its AA. This is WBNA's first CRA public evaluation since opening in August 2007.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA totals 136 census tracts, including all census tracts in Lucas County and 8 census tracts in Wood County. The AA consists of 16 low-income census tracts, 35 moderate-income census tracts, 54 middle-income census tracts, and 31 upper-income census tracts. All of the LMI census tracts in the AA are located in Lucas County, and nearly all of these census tracts are in the vicinity of downtown Toledo. Lucas County and Wood County are part of the Toledo Metropolitan Statistical Area (MSA). The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any LMI geographies.

The following table highlights demographic information of the AA:

Table 1 - Demographic Information for Assessment Area					
Demographic Characteristics	#	Low Income	Moderate Income	Middle Income	Upper Income
Geographies (Census Tracts)	136	11.76%	25.74%	39.71%	22.79%
Population by Geography	488,129	6.79%	22.40%	41.85%	28.96%
Owner-Occupied Housing by Geography	131,818	3.67%	18.41%	45.02%	32.90%
Businesses by Geography	27,242	4.81%	13.57%	42.77%	38.85%
Farms by Geography	637	1.57%	9.26%	40.66%	48.51%
Family Distribution by Income Level	128,431	21.95%	17.62%	21.43%	39.00%
Median Family Income HUD Adjusted	= \$61,500	Median Housing Value = \$95,657			
Median Family Income for 2010	= \$51,984	Unemployment Rate: (July 2011 unadjusted)			
Households Below the Poverty Level	= 12.94%	United States = 9.3%			
		State of Ohio = 9.2%			
		Lucas County = 10.5%			
		Wood County = 9.4%			

Source: 2000 U.S. Census; 2010 Business Demographic Data

The national and local economies have deteriorated since the bank opened in August 2007. Unemployment in the AA is higher than state and national averages; as of July 2011, the unemployment rate is 10.5% in Lucas County and 9.4% in Wood County. Population in the AA has decreased by nearly 2% from 2000 to 2010. Projections show continued population decline in Lucas County but growth in Wood County. Manufacturing, education, business services, and health services provide for a majority of the employment opportunities in the area. Major employers in the AA include Chrysler, General Motors, ProMedica Health System, The University of Toledo, and several local school districts.

Competition from other financial institutions in the AA is high, particularly in the downtown Toledo market. Financial institutions in the AA range from local community banks to large regional and national companies. According to the FDIC market share report, there are 20 insured institutions operating 163 offices within the two county area. WBNA is one of the smaller institutions, with only 2.90% of the deposits in the market.

During our assessment of the bank's performance we met with employees of a local small business development organization to get a better understanding of the AA and its credit needs. They advised that the local economy has been especially hard hit relative to the rest of the country due to the area's economic reliance on the auto industry. The group noted banks are having a difficult time meeting the credit needs of local small businesses due to the recession and increased bank regulation. They identified providing working capital for small businesses as an opportunity for banks to meet the credit needs of the community. The group specifically mentioned lending to minority owned businesses as a credit need in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

WBNA's Lending Test performance rating is **Needs to Improve**. Based on lending volumes and the bank's business lending focus, we placed more weight on the bank's lending to businesses when assessing the bank's overall performance. The bank's distribution of business loans reflects reasonable penetration to small businesses. However, the geographic distribution of business loans reflects poor dispersion among LMI geographies. Additionally, the distribution of consumer loans reflects very poor penetration among LMI borrowers and very poor dispersion among LMI geographies. However, the bank originated or purchased a majority of its loans within the AA, and the bank's loan-to-deposit ratio is reasonable.

Loan-to-Deposit Ratio

WBNA's average loan-to-deposit (LTD) ratio is reasonable. The LTD ratio averaged 77.07% during the 15 quarters since the bank opened, and fluctuated from a low of 36.67% to a high of 90.61% during the evaluation period. The LTD ratio was lowest during the third quarter of 2007, which was the bank's first quarter in operation.

The bank's average LTD ratio ranks lowest when compared to four local financial institutions of similar size within the bank's market area. However, WBNA is the only bank of the five that opened during the evaluation period. The other banks' LTD ratios ranged from 85.20% to 92.81%, and averaged 88.79% during the 15 quarters. The comparison banks range in asset size from \$254 million to \$650 million.

Lending in Assessment Area

WBNA originated a majority of its primary loan products within its AA, and meets the standards for satisfactory performance for this criterion. Our conclusion is based on combining the results of a sample of 20 business loans and 20 consumer loans. We found the bank originated 77.50% of the loans by number and 73.04% by dollar amount inside the assessment area.

The following table details WBNA's lending inside and outside the AA by number and dollar amount:

Table 2 - Lending in Assessment Area (Business & Consumer Loans)									
Number of Loans					Dollars of Loans (000s)				
Inside AA		Outside AA		Total #	Inside AA		Outside AA		Total \$
#	%	#	%		\$	%	\$	%	
31	77.50	9	22.50	40	12,136	73.04	4,480	26.96	16,616

Source: Random sample of 20 business & 20 consumer loans originated from January 2009 through August 15, 2011

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

The overall distribution of loans reflects poor penetration among borrowers of different incomes and businesses of different sizes. To draw this conclusion, we expanded our initial loan samples to 60 business loans and 60 consumer loans made in the AA. The level of penetration to small businesses is reasonable but not significant enough to overcome the very poor penetration of consumer lending to LMI borrowers. In determining the level of penetration among borrowers of different incomes, we considered several factors including the age of the bank, the bank's business strategy, and the level of competition in the market.

Business Loans

The distribution of business loans reflects reasonable penetration among businesses of different sizes, although the percentage of loans originated and purchased by number and by dollar amount to small businesses is lower than for other financial institutions in the AA. Small businesses are businesses with gross annual revenues of one million dollars or less.

The following table shows the distribution of business loans to businesses of different sizes:

Table 3A - Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.83	5.52	21.65	100.00
% of Bank Loans in AA by #	46.67	51.67	1.66	100.00
% of Bank Loans in AA by \$	28.83	71.15	0.02	100.00

Source: Random sample of 60 business loans originated within the AA from January 2009 through July 2011; 2010 Business Demographic Data

Consumer Loans

The distribution of consumer loans reflects very poor penetration among LMI borrowers. Our sample of loans did not include any loans to low-income borrowers, and only three loans to moderate-income borrowers. The percentage of loans by number and by dollar amount originated and purchased by the bank during the sampling period are significantly lower than the percentage of LMI households in the AA.

The following table shows the distribution of consumer loans among borrowers of different incomes:

Table 3B - Borrower Distribution of Consumer Loans in the AA							
Low-Income		Moderate-Income		Middle-Income		Upper-Income	
% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
24.79	0.00	16.17	5.00	17.99	13.33	41.05	81.67

Source: Random sample of 60 consumer loans originated within the AA from January 2009 through July 2011; 2000 U.S. Census data

Geographic Distribution of Loans

The geographic distribution of loans reflects very poor dispersion to LMI geographies. In evaluating geographic distribution we considered several factors including the age of the bank, the bank's business strategy, the location of the bank, and the level of competition in the market. We used the same loan samples to determine geographic distribution as we did to determine distribution to borrowers of different incomes and business of different sizes.

Business Loans

The geographic distribution of business loans reflects poor dispersion among LMI geographies. The sample of loans showed the bank made one loan to a business in a

low-income census tract, and four loans to businesses in moderate-income census tracts. The percentage of business loans by dollar amount made in moderate-income tracts is not much lower than demographic data; however, the percentage by dollar amount made in low-income tracts is significantly lower than demographic data.

The following table shows the geographic distribution of business loans:

Table 4A - Geographic Distribution of Loans to Businesses in the AA							
Low-Income		Moderate-Income		Middle-Income		Upper-Income	
% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
4.81	1.67	13.57	6.67	42.77	40.00	38.85	51.66

Source: Random sample of 60 business loans originated within the AA from January 2009 through July 2011; Dun and Bradstreet data

Consumer Loans

The geographic distribution of consumer loans reflects very poor dispersion among LMI geographies. The sample of loans did not include any consumer loans made to borrowers residing in low-income census tracts, and only one loan to a borrower residing in a moderate-income census tract. The loan in the moderate-income census tract totals \$303 thousand, or 4.83% of the total dollar amount of loans in our sample.

The following table shows the geographic distribution of consumer loans:

Table 4B - Geographic Distribution of Consumer Loans in AA							
Low-Income		Moderate-Income		Middle-Income		Upper-Income	
% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
6.43%	0.00%	22.26%	1.67%	44.15%	13.33%	27.16%	85.00%

Source: Random sample of 60 consumer loans originated within the AA from January 2009 through July 2011; 2000 U.S. Census data

Responses to Complaints

WBNA has not received any written complaints relating to its CRA performance during this 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.