



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 01, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of New Orleans
Charter Number 701538

1600 Veterans Memorial Boulevard
Metairie, LA 70005-2690

Office of the Comptroller of the Currency

3838 North Causeway Boulevard, Suite 2890
Metairie, LA 70002-8105

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.

- Bank of New Orleans (BNO) loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of the bank's lending is within its AA.
- The bank's penetration lending to borrowers of different income levels, including low- and moderate-income (LMI) individuals is considered reasonable in light of the AA characteristics and performance context.
- A reasonable dispersion of BNO's loans were granted in various geographies, including LMI census tracts, in light of the bank's AA characteristics and performance context.
- BNO did not receive any complaints regarding its record of meeting the community's credit needs during the review period.
- BNO's Community Development (CD) performance demonstrates adequate responsiveness to the CD needs of its AA through CD loans, qualified investments, and CD services given the institution's capacity and the need and availability of such opportunities for CD in the institution's surrounding and combined AAs.

Scope of Examination

BNO qualifies as an intermediate Small Bank (ISB) under the CRA regulations. This assessment of BNO's CRA performance was conducted using the Interagency Intermediate Small Bank CRA procedures, dated July 2007. These procedures include a Lending Test and a CD Test. The lending test evaluates the bank's record of helping meet the credit needs of its AA through its lending activities. The CD test evaluates the bank's CD lending, qualified investments, and CD services.

The review period for the lending test generally covers loans originated over a three-year period. Performance under the Lending Test was assessed based on a review of HMDA reportable loans originated from January 1, 2008 until December 31, 2011. CD activities were evaluated since the last CRA Public Evaluation (PE) dated September 2007 and included a review of CD loans, qualified investments and services. One community contact interview was conducted.

BNO's CRA rating from the 2007 review was Satisfactory and was conducted utilizing the Interagency Small Institutions CRA Examination Procedures.

Description of Institution

BNO is a federally chartered, stock savings institution headquartered in Metairie, Louisiana. The Bank converted from a mutual to a stock institution on July 9, 2007, and is wholly owned by Louisiana Bancorp, Inc. (LBI), a shell holding company also located in Metairie, Louisiana. The main office and branches are full service facilities with traditional operating hours. BNO offers drive-up facilities and an on-site deposit taking automated teller machine at its branch office locations. The main office and branch systems are located in the New Orleans MSA.

BNO provides several types of banking services, including residential mortgages, commercial real estate and consumer lending, as well as deposit accounts, funds transfer and safe deposit services. BNO's primary loan product is mortgage loans. The bank also sells mortgage loans to the secondary market and Government insured or guaranteed Federal Housing Administration (FHA), and Department of Veterans Affairs (VA) loans are offered. BNO's second largest loan category is commercial real estate (CRE) loans, but a large portion of the originations during the review period were over \$1 million, therefore small business lending was not analyzed as part of this evaluation. Applicable CRE loans will be reviewed as part of the CD Test.

The following table provides information related to various balance sheet components of BNO as of December 31, 2011. The table indicates the dollar amount, percent of loans, and percent of total assets for each loan category.

| Major Components of Assets, Liabilities and Capital | | | |
|--|--------------------------------|--------------------------|---------------------------------|
| As of 12/31/2011 | | | |
| Table 1 | | | |
| Balance Sheet Component | Balance Sheet \$ Amount | % of Total Assets | \$ or % Growth in Period |
| Loans | \$197,271 | 63.3% | 8.8% |
| 1-4 Family Mortgages & Unsecured Loans | 121,989 | 39.1% | 19.1% |
| Multi-Family & Nonresidential Mortgages | 74,193 | 23.8% | 7.6% |
| Consumer Loans | 716 | 0.2% | -0.8% |
| Investments | 131,572 | 42.2% | 42.2% |
| Interest-Earning Deposits in FHLBs | 26,174 | 8.4% | 5.1% |
| U.S. Agencies Securities | 12,211 | 3.9% | -7.2% |
| U.S. Backed Mortgage Pool Securities | 67,013 | 21.5% | -22.6% |
| Total Assets | 311,783 | 100.0% | 0.0 % |
| Liabilities & Capital (LC) | 311,783 | 100.0% | 0.0% |
| Deposits and Escrows | 200,762 | 64.4% | 7.1% |
| Advances from FHLBank & Other Borrowing | 61,635 | 19.8% | -0.1% |
| Total Liabilities | 264,506 | 84.8% | 6.9% |
| Total Stock & Paid in Capital | 31,470 | 10.1% | -1.5% |
| Retained Earnings | 19,148 | 6.1% | -6.0% |
| Total Capital | 47,277 | 15.7% | 6.9% |

Source: FDIC Call Report

As of our evaluation date, BNO had no legal or regulatory impediments identified that would impact its lending activities or impede the bank's ability to meet the credit needs within the AA.

Description of Assessment Area

BNO has designated Jefferson and Orleans parishes of the New Orleans-Metairie-Kenner MSA as its AA. The entire MSA, which consists of eight parishes, was considered too large by senior management for BNO to reasonably serve. In May of 2012, BNO opened a full service branch in St. Tammany Parish and the bank is expanding its AA to include that parish. BNO has not arbitrarily excluded any area of the MSA; particularly those areas designated low-to-moderate income geographies. The bank's AA meets all legal requirements as specified by the CRA.

Subsequent to Hurricane Katrina, the demographic information significantly changed; however, the table below depicts the demographic data of the AA prior to the hurricane

based on the 2000 Census. Table 2 illustrates select demographic information of the bank's AA.

| Table 2 | | | | | | |
|--|----------|-----------------------|-----------------------------|--------------------------|-------------------------|-----------------------|
| Demographic Information for BNO's AA: Jefferson and Orleans Parishes, LA | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Census Tracts | 304 | 19.08% | 25.33% | 29.61% | 25.33% | 0.66% |
| Population by Tract | 940,140 | 14.57% | 24.7% | 34.15% | 26.56% | 0.00% |
| Owner-Occupied Housing by Tract | 402,998 | 23.97% | 38.20% | 56.27% | 64.99% | 0.00% |
| Business by Tract | 129,383 | 8.34% | 21.09% | 34.78% | 35.79% | 0.00% |
| Farms by Tract | 1,196 | 6.77% | 19.15% | 38.80% | 35.28% | 0.00% |
| Family Distribution by Income Level | 234,789 | 13.14% | 23.4% | 35.33% | 28.12% | 0.00% |
| Median Family Income | | 43,040 | Median Housing Value | | | 109,234 |
| HUD Adjusted Median Family Income for 2010 | | 61,100 | Unemployment Rate | | | 4.53% |
| Households Below Poverty Level | | 19.3% | | | | |
| 2012 HUD updated MFI | | | | | | |
| (*) The NA category consists of Tracts that have not been assigned an income classification. | | | | | | |

Source: 2000 U.S. Census data, CRA Wiz reports

The table below segregates BNO's census tracts by income groups, and provides the number of families living in those census tracts. The table also includes the distribution of the population by income across the AA. There are 304 census tracts, which are comprised of 58 low-income tracts, 77 moderate-income tracts, 90 middle-income tracts, 77 upper-income tracts, and two tracts in which information was not available. The population of the entire AA consists of 26.9 percent low-income families and 16.8 percent moderate-income families.

| Table 3 | | | | | |
|---|--------------------------------|--------------|--------------------------------------|--------------|--|
| Distribution of Geographies, Families and Population Mix | | | | | |
| BNO - AA | | | | | |
| | Number of Census Tracts | | Families in Each Census Tract | | Population Mix of the Entire AA |
| 2000 Census: | # | % | # | % | % |
| Low-Income | 58 | 19.1 | 30,859 | 13.1 | 26.9 |
| Moderate-Income | 77 | 25.3 | 54,950 | 23.5 | 16.8 |
| Middle-Income | 90 | 29.6 | 82,955 | 35.3 | 18.7 |
| Upper-Income | 77 | 25.3 | 66,025 | 28.1 | 37.6 |
| Income N/A | 2 | 0.7 | 0 | 0.0 | 0.0 |
| Totals | 304 | 100.0 | 234,789 | 100.0 | 100.0 |

Source: 2000 U.S. Census data, CRA Wiz reports

The United States Office of Housing and Urban Development's (HUD) updated 2011 median family income for the New Orleans MSA was \$61,100. Low income is defined

as less than 50 percent of the median family income. Moderate income is defined as 50 percent to less than 80 percent of the median family income. Middle income is defined as 80 percent to less than 119 percent of the median family income. Upper income is defined as income of 120 percent and over the median family income.

From the combined information presented, approximately 19.3 percent of households in this AA live at or below the poverty level. Total housing units within the AA equaled 402,998, of which 49.65 percent are owner occupied. The median value of a home in the AA is reflected in CRA Wiz data at \$109,234, which continues to pose a barrier to home ownership for low and moderate income families in the AA.

The economy of the New Orleans MSA is primarily centered in maritime and related industries, healthcare, oil and petrochemical production, government, and tourism. Major employers in the New Orleans MSA include Ochsner Health Systems, Shell Oil Co., Martin Marietta, and Harrah's Entertainment. Import and export trade, tourism, service and retail trade, government offices, and casino gaming have historically played major roles in the economic stability of this AA. According to data provided by the Greater New Orleans Community Data Center, the tourism and convention industry typically provides 40 percent of the tax revenues for the City of New Orleans. Information obtained from public sources estimates that an average of 8.5 million people visit New Orleans annually, contributing over \$5 billion to the local economy. However, according to most local economists, the effects of Hurricane Katrina are still impacting the area recovery efforts in terms of returning industries, available housing, and health care facilities.

Unemployment in the New Orleans MSA currently equates to that of the state of Louisiana, but is noticeably lower than that of the nation. As of May 31, 2012, the unemployment rate for the New Orleans MSA and the state of Louisiana was 7.2 percent. The national unemployment rate for the same period was 8.2 percent.

Since the 2007 CRA examination, New Orleans and the entire Gulf Coast region have continued in recovery efforts from the devastating effects of Hurricanes Katrina and Rita in 2005 and Hurricanes Ike and Gustav in 2008. Residents, employers, and services have returned to the area in some capacity since the hurricanes, but weaknesses and shortfalls continue. As a result of the area's hurricane activity between 2005 and 2008, the bank's AA has lost a significant number of its residents. Specifically, the city of New Orleans lost approximately 141,000 or 29.1 percent of its residents since the 2000 census. Another factor hampering the AA's recovery has been the lack of livable housing accommodations for returning residents. The lower 9th ward and New Orleans East remain areas where returning homeowner activity is slow. These two areas

experienced a significant amount of the flooding and wind damage from Hurricane Katrina leaving extreme devastation. Estimates range as high as 70 percent of the city's housing was either damaged or destroyed. Areas in question include a significant amount of the cities lower and moderate income residences. Middle and upper income homeowners returning to the area benefitted from federal and state subsidies as well as insurance proceeds to rebuild or rehabilitate their properties to a pre-hurricane state.

One reason for the lack of more home ownership has been the escalating prices of single family residences affordable to LMI individuals. The website Zillow.com reflected that the median value for a home in New Orleans as of February 2012 is \$162,000. Based on the secondary market standard of a maximum of 28 percent of income for a mortgage loan and the high range of income for low income families (\$30,549), the most that a low income family could afford to pay on a monthly basis is \$712. This figure does not include taxes and insurance which reduces the amount that a low and/or moderate income family could afford. Since Hurricanes Katrina and Rita, hazard insurance has more than doubled on real estate, with numerous insurers still refusing to write new policies in the New Orleans area.

In the wake of the storm recovery, average rents have increased. CRA Wiz reports indicated that the weighted average rent in the New Orleans MSA was \$510. However, more current data obtained from the Internet reflected that fair market rent for a two-bedroom apartment was \$933 as of 2012. Furthermore, 33.09 percent of low income tract residents and 36.20 percent of moderate income tract residents receive public assistance.

We discussed community-lending needs with the executive director of a local economic development non-profit agency who identified small business loans as the most prominent lending need in the AA. Our contact stated that while there are no major specific CD projects for local financial institutions to get involved with, housing needs are resolved on a case by case basis and that's when his organization gets involved. Our contact stated that local banks have been conservative and hesitant to get involved with or commit significant funding to any major development geared toward the LMI population. He stated that perceptions of local financial institutions are the same, with no one institution viewed more favorably than the other.

Due to the devastation of Hurricane Katrina, the AA and the entire MSA have been designated as a "disaster area" since September 2005. In September 2005, the Federal Government designated Orleans and Jefferson Parishes as disaster areas due to Hurricane Katrina, with OCC Bulletin 2012-08 extending the period of CRA consideration for loans made to federally declared disaster areas.

Conclusions with Respect to Performance Tests

LENDING TEST

BNO's performance under the lending test is satisfactory. BNO's loan-to-deposit ratio is reasonable and the majority of the loans are originated inside the bank's AA. Overall, the distribution of loans reflects a reasonable distribution among individuals of difference income levels. Overall, the geographic distribution of loans reflects a reasonable distribution of low- and moderate-income census tracts.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's loan-to-deposit ratio averaged 85 percent since the prior 2007 CRA examination. This performance compares well with similarly situated thrifts with a quarterly average loan-to-deposit ratio of 91 percent during the same time period. BNO ranks second among four peer thrifts who are of a similar size that are also domiciled in the states of Louisiana and Mississippi.

| Table 4 Loan to Deposit Ratio Data | | | | |
|---------------------------------------|----------------------|----------------|--------------------|----------------------|
| Thrift Institution | Average Total Assets | # of Locations | Basic LTDR | |
| | | | # Quarters Average | % Change over Period |
| First FS&LA of Pascagoula | 273,217 | 6 | 119.38% | 96.35% |
| Bank of New Orleans | \$306,479 | 3 | 85.22% | 141.74% |
| Fifth District Savings Bank | 373,639 | 6 | 82.41% | 89.79% |
| Home Federal Bank | 181,615 | 3 | 68.66% | 231.01% |
| MBL Bank | 203,151 | 2 | 66.16% | 86.99% |
| Group 3 Peer Median | \$267,620 | | 91.17% | 84.72% |

Source: CRA Wiz reports and HUD Updated information

Lending in AA

A majority of BNO's primary loan product was made within the bank's AA and the bank meets the standard for satisfactory performance. During the review period, BNO originated 66 percent by number and 87 percent by dollar amount of loans in the AA.

| Concentration of Thrift Loans Originated In and Outside of the AA Table - 5 | | | | | | |
|---|---------------|-------|----------------|-------|-------|-----------|
| Loan Type | % Inside Area | | % Outside Area | | Total | |
| | # | \$ | # | \$ | # | \$(000) |
| Mortgage Loans | 66.2% | 87.0% | 33.8% | 13.0% | 728 | \$158,048 |

Source: 2008 – 2011 HMDA-LAR

Lending to Borrowers of Different Incomes

BNO's distribution of loans to borrowers of different incomes is reasonable in light of AA demographics and peer comparisons. The percent of home mortgage loans is significantly lower than the percent of both low-income and moderate-income family in the AA as well as the aggregate lending data for other HMDA reporters. The bank's performance is considered satisfactory given the lack of affordable housing and high competition in the AA. Lack of affordable housing limits lending opportunities. CRA Whiz data shows the average median home price in the AA of \$109,234 and the website Zillow.com reflects a median value for a home in New Orleans as of February 2012 of \$162,000. The HUD updated median family income is \$61,200 which means the maximum income that is considered low-income is \$30,600; therefore, low-income borrowers would have difficulty qualifying for a home mortgage loan. Additionally, moderate-income families could also encounter difficulty qualifying for a home mortgage loan with an income range from \$31,600 to \$48,960.

Market competition for home mortgage loans is significant. According to the 2011 aggregate HMDA-LAR reports for the New Orleans MSA, there are approximately 363 lenders. The AA is dominated by larger institutions including Wells Fargo which had a 10.16 percent market share. The top 10 lenders had a 51.57 percent market share. The thrift with the largest market share for 2011 was Fidelity Homestead with 2.12 percent market share and was ranked 12th. BNO ranked 34th with a 0.63 percent market share.

| Borrower Income Category | % of Loans | % of \$ Volume | % Family Distribution | % of Aggregate (or Peers) |
|-----------------------------|---------------|-------------------|--------------------------|---------------------------------|
| Low | 1.6% | 0.2% | 26.9% | 5.5% |
| Moderate | 8.8% | 2.7% | 16.8% | 13.9% |
| Middle | 10.8% | 4.7% | 18.7% | 20.3% |
| Upper | 78.8% | 92.4% | 37.6% | 60.3% |
| Total # or \$ | 434 | \$125,540 | 234,789 | 9,076 |

Source: HMDA-LAR Report; CRA Wiz reports

In discussing the distribution of mortgage loans to low- and moderate-income borrowers with bank management, they provided some pertinent background information. Beginning in 2009, the bank experienced a decline in its FHA Title 1 home improvement loan business. This was due to the bank's Title 1 vendors losing their FHA benchmark approvals, and the FHA requiring a special audit of all Title 1 lending activities. Title 1 loans were the bank's primary method of reaching and servicing the LMI borrowers in its AA.

Geographic Distribution of Loans

The geographic distribution of loans in BNO's AA is reasonable considering the owner occupancy levels and peer comparison. Table 7 illustrates the total number and percentage of mortgage loan originations by the bank by census tract income level compared to the level of owner occupied units in those census tracts.

| Table 7 Distribution of Thrift HMDA-Reportable Loans By Census Tract Income Level in the AA | | | | |
|---|---------------|-------------------|------------------------------|---------------------------------|
| Census Tract Income Category | % of Loans | % of \$ Volume | % Owner Occupied Units | % of Aggregate (or Peers) |
| Low | 1.7% | 1.2% | 6.8% | 3.8% |
| Moderate | 9.5% | 6.5% | 19.1% | 12.4% |
| Middle | 20.1% | 13.6% | 38.5% | 30.1% |
| Upper | 68.7% | 78.8% | 35.7% | 53.8% |
| Total # or \$ | 482 | \$137,487 | 200,069 | 9,827 |

Source: HMDA-LAR Report; CRA Wiz reports

While the bank's lending levels for both low- and moderate-income census tracts is below the level of owner occupied units in those tracts, there are several mitigants.

Housing availability and affordability - After Hurricanes Katrina (in particular) and Rita, over 80 percent of the housing stock of New Orleans was either destroyed or heavily damaged. Homes that were left, rapidly escalated in value. Due to Hurricanes Katrina and Rita, affordable housing remains a primary credit need. Based on CRA Whiz data, the weighted average median house price in the AA is \$109,234. This amount is three and a half times the upper range for a low income family; based on 2011 HUD updated median family income. The Internet website *Sperling's Best Places* reflects the 2012 median home cost in New Orleans of \$131,000. This median price further puts home ownership out of the reach of many low and moderate income families.

Financial qualifications of LMI borrowers - Demographic information shows that 19 percent of the households in the AA live below the poverty level, which represents a comparatively high level. The percentage is worse when reviewing income within census tract categories. Low income tracts had 46 percent of its households living below the poverty level while approximately 26 percent of moderate income households were below the poverty level. Further, because so many families live at or below the poverty level, applicants often do not have the required down payment necessary to comply with underwriting guidelines.

Level of Competition in the AA – Refer to previous discussions regarding the competition in the AA.

Responses to Complaints

BNO received no consumer complaints pertaining to its performance in helping to meet the credit needs within the AA

COMMUNITY DEVELOPMENT TEST

The number and dollar amount of CD loans, qualified investments, and services provided by BNO reflects adequate responsiveness to CD, based on the bank's size, financial condition, and opportunities within its AA.

Number and Amount of Community Development Loans

The dollar and number amount of CD loans are satisfactory. During the evaluation period, the bank made 15 CD loans in excess of \$4.8 million. While some of these loans were made to address the need for low cost housing, others assisted in revitalizing and rehabilitating areas adversely impacted by Hurricane Katrina. Loans were originated to renovate properties damaged during the storm, as well as build new businesses in low- and moderate-income census tracts.

Number and Amount of Qualified Investments

The number and amount of qualified investments reflect adequate responsiveness. During the assessment period, qualifying CD grants and donations totaled \$1,060,000 and benefited 8 different community development organizations headquartered in the AA. Examples of the investments, grants, and donations include:

- New Orleans Thrift Consortium (NOTC); which is a collaboration among local thrifts to establish a loan pool for secondary mortgages to LMI 1st time home buyers;
- First Jefferson Capital Partners, SBIC, which focuses on supporting and lending to qualified small businesses in the Gulf South;
- Neighborhood Housing Services of New Orleans;
- Greater New Orleans Habitat for Humanity; and
- Jefferson Parish Economic Development Commission.

Extent to Which the Bank Provides Community Development Services

The level of CD services provided reflects adequate responsiveness to the community's needs. BNO is active in the community and provides services that benefit low- and moderate-income individuals.

The bank provides a satisfactory level of CD services. During the assessment period several bank officers/employees/Board members provided financial expertise and/or services to six qualified community development organizations in the AA. CD service activities in the AA during the assessment period include:

- BNO partners with Neighborhood Housing Services of New Orleans to establish the Helping Teachers Become Homeowners fund. This fund assists teachers in the Orleans Parish school system in first time home purchases. The program allows for a maximum grant of \$20M.
- In 2010, a loan officer participated in a focus group convened by the Federal Home Loan Bank (FHLB) in an effort to explore ways of expanding FHLB's involvement in local economic development initiatives. This focus group resulted in a total of \$75M in grants for three new small business purchases in the bank's AA.
- In 2011, an officer taught money education and fiscal literacy programs to youth at the First United Methodist Church of LaPlace, LA via the FDIC Money Smart Program for Young Adults.
- The bank is actively involved in the FHLB Special Needs Assistance Program (SNAP). This program provides grant funds for rehabilitation costs of special needs homeowners. The maximum amount is \$5,000.
- One loan officer is a member of the Lakeview Civic Improvement association and serves on the New Orleans Redevelopment Authority (NORA) committee. This committee works to assist NORA in the sale of Hurricane Katrina damaged properties that were sold by property owners through the Louisiana Road Home Program.
- A Board member serves on numerous Community Development groups as a Board member. These groups work with communities with high levels of property and affordable housing needs.

BNO offers a variety of products and services to its customers. These products and services are reasonably assessable to geographies and individuals of different income levels. However, there are no branches located in low- or moderate-income census tracts. BNO offers Free Checking which was developed to meet the needs of lower income individuals. The bank also offers no fee access to their ATM network, Internet banking, touch-tone telephone service, direct deposit, and online bill pay. All of these benefit lower-income customers.

Fair Lending or Other Illegal Credit Practices Review

The October 1, 2012 full scope examination conducted by the OCC included an assessment of fair lending practices and risks of the institution. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs during the current CRA review.