



PUBLIC DISCLOSURE

April 1, 2013

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
200 Public Square, Suite 1610
Cleveland, OH 44114-2301

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 major factors that support this rating include:

- Lake National Bank's (LNB's) distribution of loans represents a reasonable penetration among individuals of different income levels and businesses of different sizes.
- The level of LNB's lending within its assessment area is reasonable.
- The geographic distribution of assessment area loans is reasonable.
- LNB's loan-to-deposit ratio is reasonable.

SCOPE OF EXAMINATION

LNB was evaluated under Small Bank examination procedures. We assessed the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The evaluation period for this examination was November 13, 2007 through April 1, 2013.

LNB's primary loan products are residential home mortgage and business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). We tested the accuracy of the HMDA data and identified some errors that needed correction. This evaluation is based on corrected data. We used loan data from 2010 and 2011 to evaluate the bank's home mortgage performance. To evaluate the bank's business lending performance, we selected a sample of 35 business loans made from January 1, 2010 through December 31, 2011.

We utilized 2000 U.S. Census data, information from the bank, OCC information, and information from a member of the community to determine the characteristics and credit needs of the AA.

DESCRIPTION OF INSTITUTION

LNB is an intrastate bank headquartered in Mentor, Ohio. The bank does not have a holding company, nor any subsidiaries or affiliates. As of December 31, 2012, LNB had total assets of \$128 million and Tier One Capital of \$12.2 million. LNB operates one full-service main office, which includes an automated teller machine. No branches were opened or closed during the evaluation period. There have not been any significant

changes to LNB’s corporate structure, including merger or acquisition activities, since the last CRA examination.

LNB offers traditional banking products and services. Residential mortgages and business lending are LNB’s primary business focus, with consumer loans comprising a small portion of the loan portfolio. The bank originates long-term mortgage loans for sale on the secondary market within the residential mortgage portfolio. Deposit products and services include various checking, savings, and certificate of deposit accounts.

As of December 31, 2012, LNB reported net loans of \$96 million and had a net loans to average assets ratio of 74.82 percent. The loan portfolio composition is as follows:

Total Loan Portfolio Summary by Loan Product December 31, 2012	
Loan Category	% of Outstanding Dollars
Residential Real Estate	36.80
Business Loans	62.22
Consumer Loans	0.98

Source: December 31, 2012 Report of Condition

There are no legal or financial impediments to LNB’s ability to meet the credit and community development needs of its AA. The bank was rated Satisfactory at its last CRA examination, dated November 13, 2007.

DESCRIPTION OF ASSESSMENT AREA

LNB has one AA comprised of Lake County, Ohio. The AA has 64 census tracts and is located within the Cleveland-Elyria-Mentor Metropolitan Statistical Area (MSA). There are no low-income census tracts, three moderate-income census tracts, 44 middle-income census tracts, and 17 upper-income census tracts. The assessment area meets the requirements of the regulation. It consists of contiguous geographies, and low- and moderate-income areas are not arbitrarily excluded. The following table highlights demographic information of the AA:

Demographic Information for the AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	64	0	4.69	68.75	26.56
Population by Geography	227,511	0	4.68	64.88	30.44
Owner-Occupied Housing by Geography	69,502	0	2.85	64.11	33.04
Businesses by Geography	20,940	0	5.80	60.06	34.14
Farms by Geography	547	0	4.39	60.88	34.73
Family Distribution by Income Level	62,786	13.28	18.50	25.30	42.93
Census Median Family Income (MFI)		\$52,660	Median Housing Value		\$132,439
HUD-Adjusted MFI: 2011		\$62,800	Families Below the Poverty Level		3.52%

HUD-Adjusted MFI: 2010	\$64,800	Unemployment Rate – Seasonal Unadjusted 2012	6.40%
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Source: 2000 U.S. Census data and 2010 Dun & Bradstreet data

The national and local economies deteriorated during the evaluation period. However, Lake County was not impacted to the extent as some other parts of the MSA and the state. According to FDIC Regional Economic Conditions (RECON) report using U.S. Bureau of Labor Statistics data, the December 2012 seasonally unadjusted unemployment rate for Lake County was 6.4 percent. This compares favorably to state and national averages of 7.2 percent and 8.1 percent, respectively, for that same period.

Services, manufacturing, retail, and healthcare provide for a majority of the employment opportunities in the area. Lake Health is the county’s largest employer as of February 2013. Other major employers in the AA include Steris Corporation, Avery Dennison Corporation, The Lubrizol Corporation, Lincoln Electric, and several local school districts.

Competition from other financial institutions in the AA is strong. Financial institutions in the AA range from local community banks to large regional and national companies. Deposit data from the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2012 reflected that 21 depository institutions operate 89 offices within the county with a population of 228 thousand. The data also showed that LNB ranked twelfth, with 2.52 percent of the deposits in the area.

In conducting the assessment of the bank’s performance, we used OCC and bank information to identify the needs of the community. We also contacted a local economic development official, who indicated that obtaining conventional financing remains difficult.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LNB’s performance under the lending test is satisfactory.

In drawing conclusions, we placed more weight on business lending than mortgage lending due to loan volume. We also placed greater weight on borrower distribution performance. The geographic distribution received less weight due to the limited number of low- and moderate-income parts of the AA.

Loan-to-Deposit Ratio

LNB’s loan to deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance.

LNB’s LTD ratio is reasonable given the bank’s size, financial condition, and the AA credit needs. The bank’s LTD ratio averaged 87.38 percent over the 24 quarters since the last CRA examination. This ratio ranged from a quarterly low of 74.78 percent to a

quarterly high of 98.97 percent during the period. It is also notable that LNB’s average LTD ratio does not reflect all home mortgage lending activity, as the bank sells mortgages in the secondary market.

The bank’s LTD ratio is consistent with other community banks in the area. While we could not identify any similarly situated institutions in the AA, LNB’s LTD ratio compares favorably to two competitors’ LTD ratios. Bank management identified these competitors, which operate within 25 miles of LNB. LNB ranks second in LTD ratio amongst this group. The average LTD for the other two banks over the same 24 quarters ranged from 45.93 percent to 106.18 percent.

Lending in Assessment Area

The majority of LNB’s lending record is inside its AA and meets the standard for satisfactory performance.

A majority of LNB’s primary loan products were made within the bank's AA. The following table details the bank’s lending within the AA by number and dollar amount of loans. Loans originated within the AA represent 75.21 percent of the total amount of loans originated.

Table 1 – 2010 and 2011 Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Mortgage	56	70.89	23	29.11	79	9,356	68.38	4,327	31.62	13,683
Business	126	77.30	37	22.70	163	18,650	71.73	7,350	28.27	26,000
Totals	182	75.21	60	24.79	242	28,006	70.57	11,677	29.43	39,683

Source: 2010 and 2011 loan reports; 2010 and 2011 HMDA data

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

LNB’s lending to borrowers of different income levels represents reasonable penetration and meets the standard for satisfactory performance.

Home Loans

The overall distribution of home loans to borrowers reflects a reasonable penetration among individuals of different income levels. The following table shows LNB’s distribution of HMDA reportable home loans made during the two-year review period within the AA based on borrowers’ income.

Table 2 – 2010 and 2011 Borrower Distribution of Home Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Loans	13.28	10.71	18.50	7.14	25.30	32.14	42.93	39.29

Source: HMDA data for 2010-2011 and 2000 U.S. Census data
 Note: Income category was not recorded for 10.71% of LNB loan data

The portion of loans to low-income borrowers is excellent when taking into account the 3.52 percent of families in the AA living below the poverty line. It is especially difficult for the segment of the low-income population that live below the poverty line to afford and maintain a home. This has an impact on the opportunity to lend to the low-income population of the community. The distribution of home loans to moderate-income borrowers reflects poor penetration at 7.14 percent, compared to 18.50 percent of moderate-income families in the AA.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Our conclusion is based on the results of a review of 35 business loans made during 2010 and 2011. Loans to businesses with annual revenues of \$1 million or less accounted for 35.29 percent of the loans sampled. Given the relatively small loan sample, this is considered reasonable compared to demographic data that show 67.74 percent of the area’s businesses are considered small businesses. The following table shows the distribution of business loans among different sized businesses in the AA.

Table 2A – 2010 and 2011 Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67.74	3.63	28.64	100%
% of Bank Loans in AA by #	35.29	65.71	NA	100%
% of Bank Loans in AA by \$	16.12	83.88	NA	100%

Source: business loan data sampled from 2010-2011; 2010 Dun & Bradstreet data

LNB also addressed the affordable housing needs of low- and moderate-income individuals of the AA through other lending activities, which is considered positive in relation to the bank’s size and capacity.

- LNB extended a line of credit to a non-profit to provide housing to low-and-moderate-income and mentally disabled individuals.
- Two lines of credit were extended to a non-profit that focuses on affordable housing and services for low- and moderate-income individuals in the area.
- LNB sponsored a non-profit’s affordable housing grant application to the Federal Home Loan Bank of Cincinnati. This resulted in a \$425 thousand grant to help

construct a 17-unit housing complex for low and moderate-income individuals within the AA.

Geographic Distribution of Loans

LNB’s geographic distribution of loans meets the standard for satisfactory performance. Conclusions are primarily based on performance within moderate-income areas as the AA has no low-income census tracts.

The distribution of loans reflects a reasonable dispersion throughout the bank’s AA. More weight was placed on the bank’s business loan distribution due to the very limited number of owner-occupied housing located within the three moderate-income census tracts.

Home Loans

The bank’s geographic distribution of home loans in this AA reflects a reasonable dispersion throughout census tracts of different income levels given the demographic composition of the AA. While the bank did not originate any home loans in the three moderate-income census tracts in the AA, the opportunity to lend is somewhat limited as less than 3 percent of the area’s owner-occupied housing units are located in those parts of the AA.

The following is a table that details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level during 2010 and 2011.

Table 3 – 2010 and 2011 Geographic Distribution of Home Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied	% of Number of Loans	% of AA Owner Occupied	% of Number of Loans	% of AA Owner Occupied	% of Number of Loans	% of AA Owner Occupied	% of Number of Loans
	NA	NA	2.85	0.00	64.11	35.71	33.04	64.29

Source: HMDA data for 2010-2011 and 2000 U.S. Census data

Business Loans

The bank’s geographic distribution of business loans reflects a reasonable dispersion throughout the census tracts of different income levels. While the percentage of loans made in moderate-income tracts exceeds the percentage of AA businesses located in moderate-income areas, the percentage represents only a few loans due to our sampling levels.

The following table details the bank’s performance compared to the percentage of businesses in each census tract income level during 2010 and 2011.

Table 3A – 2010/2011 Geographic Distribution of Loans to Businesses in Lake County AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
	NA	NA	5.80	6.35	60.06	35.71	34.14	57.94

Source: 2010 and 2011 loan sample

Responses to Complaints

LNB has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.