

# **PUBLIC DISCLOSURE**

January 14, 2008

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Western Reserve Bank  
RSSD: 2730477

4015 Medina Road  
Medina, OH 44258

Federal Reserve Bank of Cleveland  
P.O. Box 6387  
Cleveland, OH 44101-1387

**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.

## TABLE OF CONTENTS

|  |    |
|--|----|
| Institution's CRA Rating .....                         | 1  |
| Scope of Examination .....                             | 2  |
| Description of Institution .....                       | 4  |
| Description of Assessment Area .....                   | 5  |
| Conclusions with Respect to Performance Criteria ..... | 8  |
| Appendix A: Glossary .....                             | 12 |
| Appendix B: Map .....                                  | 15 |

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The major factors and criteria contributing to this rating include:

- Reasonable loan-to-deposit ratio considering competition of lenders in the area and other lending-related activities;
- Majority of loans and other lending-related activities are in the assessment area;
- The geographic distribution of loans reflects a good penetration throughout the assessment area;
- Distribution of loans to borrower reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income);
- Distribution of loans to businesses reflects a reasonable penetration among businesses of different revenue sizes; and
- There have been no complaints filed against the bank since the previous CRA examination.

The previous CRA evaluation (December 8, 2003) resulted in a rating of "Satisfactory."

## SCOPE OF EXAMINATION

The evaluation of Western Reserve Bank's ("Western Reserve") Community Reinvestment Act ("CRA") performance covered the period of January 1, 2006 through September 30, 2007. This evaluation was performed using the Interagency Small Bank Evaluation Procedures. Under this examination method, the bank is evaluated by considering lending activity throughout its assessment area.

The lending test includes an analysis of:

- The loan-to-deposit ratio;
- The volume of loans extended inside and outside of the bank's assessment area;
- The geographic distribution of loans in the assessment area, including low- and moderate-income census tracts;
- The extent of lending to borrowers of different income levels, including low- and moderate-income borrowers, and businesses of different sizes, including small businesses; and
- The bank's record of taking action in response to written complaints about its performance in helping to meet the credit needs in its assessment areas.

The lending products reviewed for this evaluation included small business loans and home equity consumer loans. HMDA-type loans, which consist of home purchase loans, refinance loans, and home improvement loans, and other consumer-type loans, were not included as part of this analysis because there were not enough of these loans types to conduct a meaningful analysis.

During this evaluation period, Western Reserve originated 86 small business loans and 47 home equity loans. As a result, small business loans received the greatest weight by volume and dollar amount.

Data from the 2000 United States Census report is used when evaluating a bank's geographic distribution of loans among various-income census tracts within a bank's assessment area. The distribution of loans to borrowers of different income levels was based on 2006 adjusted median household income statistics, made available by the United States Department of Housing and Urban Development ("HUD"). Specifically, the bank's borrower income distribution, with respect to home equity loans, was assessed by comparing the percentage of loans made to households in each income category (low-, moderate-, middle-, and upper-income) to the percentage of households in each income category.

Poverty level is determined by both income and family size; generally, a larger proportion of poverty level families are found in the low-income category, and to a certain extent, the moderate-income category. It is difficult for borrowers at poverty level to qualify for loans because their income is often limited. Nonetheless, the bank's lending pattern to low- and moderate-income families, in particular, is weighted most heavily in this analysis. Within the bank's total assessment area, 3.3% of the families are living below the poverty level.

## DESCRIPTION OF INSTITUTION

Western Reserve is the sole subsidiary of Western Reserve Bancorp, Inc. As of September 30, 2007 the bank's total assets were \$158 million, of which approximately 73.9% (\$116.8 million) represented total loans. Of these total loans, 58.4% comprised of commercial loans secured by real estate and 18.9% comprised of commercial non-real estate secured loans. The remainder of the loan portfolio consisted of approximately 12.8% of 1-4 family residential loans and 2.7% of consumer loans.

Western Reserve has four offices located in upper-income geographies: the main office, two limited-hour offices located in nursing home facilities, and one full-service branch that opens in October 2004 at 8751 Brecksville Road, Brecksville, Ohio. The main office and Brecksville locations have full-service ATMs.

During the 2003 CRA evaluation, the bank's assessment area was part of the Medina MSA, however, due to changes made by the US Census in 2004, Western Reserve's assessment area became part of the Cleveland-Elyria-Mentor Metropolitan Statistical Area ("MSA").

There are no legal or financial constraints preventing Western Reserve from meeting the credit needs of its assessment area; consistent with its asset size, business strategy, resources, and local economy.

## **DESCRIPTION OF CLEVELAND-ELYRIA-MENTOR, OH METROPOLITAN AREA 17460**

For purposes of CRA, Western Reserve has designated one region within in the State of Ohio as its assessment area. Western Reserve has designated all of Medina County, which consists of 34 tracts and portions of Cuyahoga County, specifically the cities of Brecksville and Broadview Heights, which consists of 6 tracts. The bank's assessment area contains no low-income, no moderate-income, 18 middle-income, and 22 upper-income tracts for a total of 40 census tracts.

### **Population**

The 2000 United States Census report indicated that the total population of Western Reserve's whole assessment area was 174,249. White Not-Hispanics make up 96.3% of the assessment area's population, Black Not-Hispanics comprise only 1.1% of the assessment area's population, and Asian Not-Hispanics comprise only 1.1% of the assessment area's population. The total minority population for the bank's assessment area is 3.7% versus the entire MSA's total minority population of 25.42%.

Individuals ages 25 to 64 represented 54.8%, individuals ages 17 and younger represented 27.1%, individuals age 65 and over represented 11.4%, and individuals 18 to 24 represented the remaining 6.7% of the population comprising the assessment area's population by age. These percentages reflect both the State of Ohio's and the entire MSA's population by age figures.

### **Income Characteristics**

Based on data released by HUD in 2000, the median family income for the State of Ohio was \$50,037, and for all portions of Medina and Cuyahoga Counties was \$62,489 and \$49,559, respectively. However, the median family income for the bank's designated assessment area was greater than all of the above mentioned at \$63,870.

### **Housing**

According to the 2000 U.S. Census report, there were 65,962 housing units in the bank's assessment area. The majority of these units (78.32%) were owner-occupied, while 17.6% represented rental units. Vacant units accounted for 4.1% of all housing units. One-to-four unit properties comprised 89.4% of all housing units. Mobile homes accounted for 1.1% of all housing units. Multi-family units comprised 9.5% of the remaining housing units in the bank's assessment area.

## Economics

In 2006, the Ohio Department of Development<sup>1</sup> reported that health care/social services, manufacturing, retail trade, educational services, and state government were the largest industries in Western Reserve's assessment area. Further, in 2006, Medina County's top five employers were MTD Products, Inc., Discount Drug Mart, Inc., Medina and Brunswick City Boards of Education, and Medina General Hospital. The top five employers in Cuyahoga County in 2006 were Cleveland Clinic Health Systems, University Hospitals Health Systems, American Greetings, National City Bank, and Ford Motor Company.

According to the United States Bureau of Labor Statistics,<sup>2</sup> as of September 2007, the unemployment rates for Medina County was 4.8% and Cuyahoga County was 5.7%. During this period, the State of Ohio unemployment rate was 5.3% and the national unemployment rate was 4.5%.<sup>1</sup>

There is significant banking competition throughout Medina and Cuyahoga Counties. As of June 30, 2007, the Federal Deposit Insurance Corporation ("FDIC")<sup>3</sup> reported that there were 42 FDIC-insured financial institutions operating 729 offices between the two counties. These statistics indicate that Western Reserve ranked 24<sup>th</sup>, holding 0.2% of the market share of deposits. National City Bank, which operates 871 offices in this area, ranked first, with 27.7% of the market share of deposits. KeyBank, N.A., which operates 65 offices in the area, ranked second, holding 17.5% of the market share of deposits. Third Federal Savings and Loan of Cleveland, which operates 22 offices in the area, ranked third, with 8.1% of the market share of deposits.

The following demographic table illustrates the bank's entire assessment area.

---

1 [www.odod.state.oh.us](http://www.odod.state.oh.us)

2 [www.lmi.state.oh.us/laus](http://www.lmi.state.oh.us/laus)

3 [www.fdic.gov](http://www.fdic.gov)

### Combined Demographics Report

Exam: Western Reserve Bank

Assessment Area(s): MSA 17460

| Income Categories                      | Tract Distribution        |                                    | Families by Tract Income |                  | Families < Poverty Level as % of Families by Tract |                      | Families by Family Income |              |
|--|---------------------------|------------------------------------|--------------------------|------------------|--|----------------------|---------------------------|--------------|
|  | #                         | %                                  | #                        | %                | #  | %                    | #                         | %            |
| Low-income                             | 0                         | 0.0                                | 0                        | 0.0              | 0  | 0.0                  | 5,299                     | 10.8         |
| Moderate-income                        | 0                         | 0.0                                | 0                        | 0.0              | 0  | 0.0                  | 6,870                     | 14.1         |
| Middle-income                          | 18                        | 45.0                               | 21,646                   | 44.3             | 1,057  | 4.9                  | 11,497                    | 23.5         |
| Upper-income                           | 22                        | 55.0                               | 27,250                   | 55.7             | 571  | 2.1                  | 25,230                    | 51.6         |
| Unknown-income                         | 0                         | 0.0                                | 0                        | 0.0              | 0  | 0.0                  | 0                         | 0.0          |
| <b>Total Assessment Area</b>           | <b>40</b>                 | <b>100.0</b>                       | <b>48,896</b>            | <b>100.0</b>     | <b>1,628</b>                                       | <b>3.3</b>           | <b>48,896</b>             | <b>100.0</b> |
|  | Housing Units by Tract    | Housing Types by Tract             |                          |                  |  |                      |                           |              |
|  |                           | Owner-Occupied                     |                          | Rental           |  | Vacant               |                           |              |
|  |                           | #                                  | %                        | %                | #  | %                    | #                         | %            |
| Low-income                             | 0                         | 0                                  | 0.0                      | 0.0              | 0  | 0.0                  | 0                         | 0.0          |
| Moderate-income                        | 0                         | 0                                  | 0.0                      | 0.0              | 0  | 0.0                  | 0                         | 0.0          |
| Middle-income                          | 30,173                    | 22,315                             | 43.2                     | 74.0             | 6,548  | 21.7                 | 1,310                     | 4.3          |
| Upper-income                           | 35,789                    | 29,344                             | 56.8                     | 82.0             | 5,064  | 14.1                 | 1,381                     | 3.9          |
| Unknown-income                         | 0                         | 0                                  | 0.0                      | 0.0              | 0  | 0.0                  | 0                         | 0.0          |
| <b>Total Assessment Area</b>           | <b>65,962</b>             | <b>51,659</b>                      | <b>100.0</b>             | <b>78.3</b>      | <b>11,612</b>                                      | <b>17.6</b>          | <b>2,691</b>              | <b>4.1</b>   |
|  | Total Businesses by Tract | Businesses by Tract & Revenue Size |                          |                  |  |                      |                           |              |
|  |                           | Less Than or = \$1 Million         |                          | Over \$1 Million |  | Revenue Not Reported |                           |              |
|  |                           | #                                  | %                        | #                | %  | #                    | %                         |              |
| Low-income                             | 0                         | 0.0                                | 0                        | 0.0              | 0  | 0.0                  | 0                         | 0.0          |
| Moderate-income                        | 0                         | 0.0                                | 0                        | 0.0              | 0  | 0.0                  | 0                         | 0.0          |
| Middle-income                          | 2,653                     | 39.1                               | 2,326                    | 39.0             | 258  | 38.1                 | 69                        | 51.1         |
| Upper-income                           | 4,124                     | 60.9                               | 3,638                    | 61.0             | 420  | 61.9                 | 66                        | 48.9         |
| Unknown-income                         | 0                         | 0.0                                | 0                        | 0.0              | 0  | 0.0                  | 0                         | 0.0          |
| <b>Total Assessment Area</b>           | <b>6,777</b>              | <b>100.0</b>                       | <b>5,964</b>             | <b>100.0</b>     | <b>678</b>   | <b>100.0</b>         | <b>135</b>                | <b>100.0</b> |
| <b>Percentage of Total Businesses:</b> |                           |                                    |                          | <b>88.0</b>      |  | <b>10.0</b>          |                           | <b>2.0</b>   |

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

A financial institution's loan-to-deposit ratio compares the institution's outstanding aggregate loan balances to its total outstanding deposits. This ratio is a measure of an institution's lending volume relative to its capacity to lend. Further, this ratio is derived by dividing the institution's quarterly net loans by the quarterly total deposits.

Western Reserve's loan-to-deposit ratio is reasonable given its size, financial condition, competition from other lenders, and the credit needs of its assessment area. The bank has an average loan-to-deposit ratio of 95.01% over the past 15 quarters of operation. Western Reserve is significantly above the peer group's average ratio of 84.29%. However, in the past year while the bank has experienced a 13% growth in net loans and 5% growth in total deposits, its loan-to-deposit ratio currently reflects that of its peer group.

The following table details Western Reserve's quarterly loan-to-deposit ratios for the past 15 quarters, since the previous evaluation.

| <b>Loan-to Deposit Ratios</b>   |                         |                              |               |
|---|-------------------------|------------------------------|---------------|
| <b>As of Date</b>   | <b>Net Loans (000s)</b> | <b>Total Deposits (000s)</b> | <b>Ratio</b>  |
| September 30, 2007  | \$116,819               | \$140,273                    | 83.28%        |
| June 30, 2007   | \$115,500               | \$136,352                    | 84.70%        |
| March 31, 2007  | \$114,168               | \$130,309                    | 87.61%        |
| December 31, 2006   | \$108,561               | \$127,985                    | 84.82%        |
| September 30, 2006  | \$111,835               | \$123,724                    | 90.39%        |
| June 30, 2006   | \$111,659               | \$120,389                    | 92.75%        |
| March 31, 2006  | \$111,639               | \$114,514                    | 97.49%        |
| December 31, 2005   | \$109,648               | \$112,963                    | 97.07%        |
| September 30, 2005  | \$109,713               | \$112,200                    | 97.78%        |
| June 30, 2005   | \$110,917               | \$109,155                    | 101.61%       |
| March 31, 2005  | \$106,157               | \$104,040                    | 102.03%       |
| December 31, 2004   | \$103,381               | \$103,176                    | 100.20%       |
| September 30, 2004  | \$104,328               | \$100,090                    | 104.23%       |
| June 30, 2004   | \$100,940               | \$101,341                    | 99.60%        |
| March 31, 2004  | \$99,065                | \$97,560                     | 101.54%       |
| <b>Quarterly Loan-to-Deposit Ratio Average since the previous examination</b> |                         |                              | <b>95.01%</b> |

### Lending in the Assessment Area

Western Reserve's small business and home equity loans were analyzed to determine the volume of lending inside and outside of the bank's assessment area. A majority of the bank's loans were made inside of its assessment area.

The table below depicts Western Reserve's volume of loans extended inside and outside of its assessment area January 1, 2006 through September 30, 2007:

| Lending Inside and Outside the Assessment Area |                            |      |           |      |                             |      |           |      |
|--|----------------------------|------|-----------|------|-----------------------------|------|-----------|------|
| Loan Type                                      | Inside the Assessment Area |      |           |      | Outside the Assessment Area |      |           |      |
|  | # of Loans                 | %    | \$ (000s) | %    | # of Loans                  | %    | \$ (000s) | %    |
| Small Business                                 | 87                         | 55.1 | 29,037    | 64.8 | 71                          | 44.9 | 15,787    | 35.2 |
| Home Equity                                    | 47                         | 83.9 | 3,072     | 83.1 | 9                           | 16.1 | 626       | 16.9 |
| <b>Total</b>                                   | 134                        | 62.6 | 32,109    | 66.2 | 80                          | 37.4 | 16,413    | 33.8 |

### *Geographic Distribution of Lending*

Although Western Reserve does not have any low- or moderate-income geographies within its assessment area, a geographic distribution analysis of the bank's lending activity throughout the middle- and upper-income areas is considered good.

### *Borrower Distribution of Lending*

Due to the demographics of the bank's assessment area, the dispersion of credit among borrowers of different income levels received the most weight in this evaluation. The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and businesses of different revenue sizes. The bank's performance was comparable or above the household income proxies.

#### *Small Business Loans*

The bank has an excellent distribution of small business loans to businesses of different revenue sizes in this assessment area.

Western Reserve originated 86 loans (98.9%) to businesses with revenue of \$1 million or less, which is significantly more than the 88.0% of businesses with revenues of \$1 million or less in this assessment area. In addition, the bank originated 41.4% of loans \$100,000 or less to businesses regardless of revenue size.

#### *Home Equity*

Of the 47 home equity loans originated during this evaluation period, 8.5% were made to low-income households; this was less than the percentage of low-income households at 12.4%. This reflects a reasonable level of home equity lending to low-income households. Loans to moderate-income households represented 23.4% of the bank's lending, in this product line. This exceeded the 12.8% of moderate-income households in the assessment area, which reflects an excellent level of lending to moderate-income households. The bank made 10.6% of its home equity loans to middle-income households, which was below the total of 17.87% of middle-income households in the assessment area. Home equity loans to upper-income households accounted for 42.6% of the bank's lending in this product line, which was below the total of 56.91% of upper-income households in the assessment area. Additionally, 14.9% of home equity loans were made to households in which the income classifications were unknown. Based on this analysis, the bank's borrower distribution of lending is considered reasonable.

### **Community Contacts**

A community contact interview was conducted with an economic development corporation. The contact stated that Medina County is one of the fastest growing and wealthier counties in Ohio and as a result its poverty rate is also increasing. While current employment rates are better than the overall state's, there is concern about the county being able to provide enough jobs that earn a livable wage. Local financial institutions have contributed to the county's home improvement programs, the development of six industrial parks and most recently toward the county's fiber optic ring project, and partnership with the University of Akron in order to bring a university presence into the county which will provide training tailored to meet the needs of local and regional employers.

### **Response to Consumer Complaints**

No CRA-related complaints were filed against Western Reserve during this evaluation period.

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal credit practices, inconsistent with helping meet the credit needs of the community, was noted during this evaluation. Further, Western Reserve has adopted procedures, such as self-evaluations and employee training, which help the bank to monitor and control risks associated with CRA and the Equal Credit Opportunity Act.

## CRA APPENDIX A

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A Census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial Census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Metropolitan area (“MA”):** Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

# CRA APPENDIX B

## ASSESSMENT AREA MAP

Western Reserve Bank  
Assessment Area: MSA 17460

