

PUBLIC DISCLOSURE

August 17, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Marblehead Bank
RSSD #513920

709 West Main Street
Marblehead, Ohio 43440

Federal Reserve Bank of Cleveland

P.O. Box 6387
Cleveland, Ohio 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.

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INSTITUTION'S CRA RATING

This institution is rated “Satisfactory”

The major factors and criteria contributing to this rating include:

- A reasonable loan-to-deposit ratio given the bank’s size, financial condition, and assessment area credit needs;
- A majority of loans and other lending-related activities are in the assessment area;
- A reasonable penetration among individuals of different income levels (including low- and moderate-income individuals) levels and an excellent penetration among businesses of different sizes;
- There have been no complaints filed against the bank since the previous CRA examination.

The previous CRA examination as of June 27, 2005 resulted in a “Satisfactory” performance rating.

SCOPE OF EXAMINATION

The CRA public evaluation is based on the level of the bank's lending within its assessment area, including the distribution to borrowers of different income levels and to small businesses of different revenue sizes and is based on loans originated from January 1, 2005 to December 31, 2008. Marblehead's performance was evaluated using the interagency small bank examination procedures. Under this examination method, the bank is evaluated by considering its lending activity. The lending test includes the analysis of the following:

- The loan-to-deposit ratio;
- The volume of loans extended inside and outside of the bank's assessment areas;
- The geographic distribution of loans in the bank's 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 small farms; and,
- The bank's record of taking action in response to written complaints about its performance in helping to meet credit needs in its assessment areas.

The bank's major loan products evaluated included consumer loans and small business (commercial) loans. Consumer loans are comprised of motor vehicle and home equity loan types. Consumer loans accounted for 80.2% and small business loans accounted for 19.8% of total loan volume for loans originated during this review period. As result, consumer loans received the greatest weight in this analysis, followed by small business loans.

Typically, both the geographic and borrower distributions are assessed in evaluating a bank's overall CRA performance; however, in this analysis, only Marblehead's borrower distribution was evaluated due to the bank's assessment area consisting of only a single middle-income census tract.

The bank's borrower income distribution with respect to consumer loans was assessed by comparing the percentage of loans made to consumers in each income category (low-, moderate-, middle-, and upper-income) to the percentage of households in each income category. In addition, poverty levels were considered in the analysis. Poverty level is determined by both income and family size. Generally, a larger proportion of families at poverty level are found in the low-income category and, to some extent, in the moderate-income category. The percentage of families below poverty level was considered when evaluating lending performance to low- and moderate-income borrowers.

The bank's borrower distribution with respect to small business loans was assessed by comparing the percentage of loans made to businesses in each revenue category (less than or equal to \$1 million or greater than \$1 million) to the percentage of total businesses in each revenue category.

DESCRIPTION OF INSTITUTION

The Marblehead Bank (Marblehead) is a state member bank and the sole subsidiary of Marblehead Bancorp, both of which are located in Marblehead, Ohio.

According to the June 30, 2009 Uniform Bank Performance Report (UBPR), Marblehead has total assets of \$31.9 million. The bank is primarily a retail lender that offers a variety of deposit and credit products, including consumer loans for motor vehicles, home equity lines, secured and unsecured credit, and small business lending. Loans represent 38.9% of the bank's total assets and securities, including government securities, represent the remaining assets at approximately 59.9%. Of the bank's nearly \$12.0 million in loans, 55.2% are secured by 1-4 family residential real estate, 21.3% are consumer loans, 14.2% are commercial and industrial loans, 3.8% are home equity lines of credit (HELOCs), and the remaining 5.5% of loans are categorized as other non-residential real estate loans.

Marblehead's assessment area is comprised of Danbury Township, which consists of a single middle-income census tract located in Ottawa County, which is part of the Toledo, Ohio Metropolitan Statistical Area 45780 (MSA).

Including its main office, Marblehead operates three offices within its assessment area. The main office and one full-service branch office each have a full-service ATM. The bank also operates one limited-service branch office that is only capable of opening simple deposit accounts and taking deposits. This branch office operates limited hours in order to serve the Otterbein North Shore retirement community. No branches were opened or closed since the previous examination.

Marblehead competes with national and regional financial institutions in providing retail-banking services within its assessment area. According to the FDIC/OTS Summary of Deposits¹ as of June 30, 2008, within the Toledo MSA, Marblehead was ranked 20th out of 25 institutions in the market with an overall deposit share of 0.29%. In Ottawa County, Marblehead was ranked 8th out of 13 institutions with an overall deposit share of 4.0%. It is noted that Marblehead is a much smaller institution whose total assets are much less than those of its major competitors, who include, but are not limited to, Huntington National Bank, National Bank of Oak Harbor, Genoa Banking Company, KeyBank N.A., US Bank N.A., First Federal Bank of the Midwest, and National City Bank.

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

¹ www.2.fdic.gov

DESCRIPTION OF ASSESSMENT AREA IN TOLEDO MSA 45780 IN THE STATE OF OHIO

Marblehead is located in Ottawa County, which is part of the Toledo Metropolitan Statistical Area (MSA) 45780 within the state of Ohio. The MSA consists of Fulton, Lucas, Ottawa, and Wood Counties. Marblehead's assessment area is comprised of a single middle-income census tract located in Danbury Township. Danbury Township is made up of the village of Marblehead and Lakeside on Lake Erie.

The Marblehead Peninsula divides Lake Erie to the north and east from the Sandusky Bay to the south. In the summer, it is a popular vacation area because of its lake frontage, ferry service to the Lake Erie Islands, quality sport fishery, the Cedar Point amusement park, and the nearby Chautauqua at Lakeside. The economy is greatly dependent upon seasonal tourism from early May through late October. Marblehead is also commercially important as a major limestone producer. The limestone is mined in nearby quarries and transported by conveyor belt to the Marblehead boat loading dock, where it is loaded onto commercial lake freighters.²

Lakeside is an unincorporated or private community and it is one of only a few continuously operating independent Chautauqua communities that persists in the 21st century. The word "Chautauqua" is a generic descriptive term for resorts that blend summer recreation or secular activities with religious observance, education, and culture. Lakeside is a gated community from the end of June through Labor Day. To enter Lakeside during the summer Chautauqua season, individuals must pay a gate fee, which helps support maintenance and improvements in town.³

Population Characteristics

According to the 2000 U.S. Census, the total population within Marblehead's assessment area is 4,631. Also, 22.72% of the assessment area's total population is age 65 or older compared to only 16.37% of Ottawa County's, 13.28% of Ohio's, and 12.87% of the Toledo MSA's total population in that same age category. There is a concentration of the older population, which bank management states is the net provider of funds, but also tends to be net savers rather than borrowers.

According to Ohio Department of Development's Office of Policy, Research, and Strategic Planning,⁴ the total population from 2001 to 2007 in Ottawa County increased from 40,973 to 41,084 and is projected to decrease to 40,800 by 2010.

² www.geocities.com/marblehead_quarry

³ www.lakesideohio.com

⁴ www.odod.state.oh.us

Income Characteristics

Based on the 2000 U.S. Census, the median family income for the bank's assessment area is \$52,028, which is above the state of Ohio's median family income of \$50,037, the MSA's of \$50,408, and Ottawa County's of \$51,919.

The median household income for the bank's assessment area is \$42,555, which is above the Ohio's median household income of \$40,956, the MSA's of \$40,210, but below Ottawa County's of \$44,224.

There are 2,061 households, of which 1,375 are designated as families. Only 20 families (1.53%) and only 103 households (5.00%) are living below the poverty level within the assessment area. Further, 14 households (0.69%) are receiving public assistance and 76 renter households (3.60%) have rent costs greater than 30% of their income within this assessment area.

Housing Characteristics

According to the 2000 U.S. Census, there are 5,703 housing units in the assessment area, of which 30.33% are owner-occupied, 6.10% are rental units, and 63.56% are vacant. Also, 97.83% are one-to-four family units, 2.17% are multi-family units, and 32.12% are mobile homes.

Renters with rent costs greater than 30% of median family income were 21.84% in the bank's assessment area. This indicates that rents are more affordable for low- and moderate-income borrowers in the bank's assessment area as compared to Ottawa County's at 25.04%, Ohio's at 33.76%, and the MSA's at 35.75%.

The housing affordability ratio, calculated by dividing median family income by median housing value, was 35.0% in the bank's assessment area. This indicates that a slightly greater challenge exists for low- and moderate-income borrowers to purchase a home in the bank's assessment area as compared to Ohio's and Ottawa County's ratio at 40.0% and the MSA's at 42.0%.

The high number of vacant housing units in Danbury Township is due to this area being primarily a vacation spot; the majority of units are rentals or second homes that are seasonally occupied.

Marblehead continues to fund modular homes and manufactured homes within their assessment area. Marblehead is one of only two banks in Ottawa County to offer financing for non-conforming real estate projects, such as "dock-a-minimums" (the purchase of a boat dock in conjunction with a manufactured home).

In the assessment area, the median age of the housing stock is 34 years and the median gross rent is \$544. According to U.S. Census data the assessment area's median housing value is \$115,700.

According to Sperling's Best Places,⁵ the median cost of a home in Marblehead, Ohio is \$158,660 and home appreciation in the last year has decreased by 8.30%. The age of the housing stock indicates an opportunity for home improvement-type lending.

According to RealtyTrac⁶ in June 2009, Ottawa County had one foreclosure filing for every 732 housing units for a total of 37 foreclosed properties in the county. Lakeside Marblehead's share of the county's foreclosures represented 11.0% or 4 out of 37 foreclosures in the month of June.

Marblehead's loan officer serves on the county committee that addresses helping area residents in foreclosure or threatened with the possibility of foreclosure. The bank joined a consortium of 15 other local banks to request and obtain a \$200,000 grant from the Federal Home Loan Bank to help address the foreclosure issues of the area.

Labor, Employment, and Economic Characteristics

The largest type of employment and corresponding salary information for each county listed below is based on 2007 statistics obtained from the Ohio Department of Development.⁷

For Ottawa County, the largest industries by average employment are trade, transportation, and utilities; leisure and hospitality; manufacturing; local government; and education and health. The largest industries by corresponding average weekly corresponding salaries are manufacturing (\$908); trade, transportation, and utilities (\$772); local government (\$658); education and health (\$535); and leisure and hospitality (\$274). Some of the major employers in this county are Brush Wellman Inc., FirstEnergy Corp., Magruder Hospital, Ottawa County Government, and USG Corp./US Gypsum Co.

According to the Job and Family Services,⁸ the unadjusted unemployment rate as of June 2009 for Ottawa County is 13.3%. The U.S. unadjusted unemployment rate as of June 2009 was 9.7% and 11.2% for the State of Ohio.

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

⁵ www.bestplaces.net

⁶ www.realtytrac.com

⁷ www.odod.state.oh.us

⁸ www.lmi.state.oh.us

Combined Demographics Report

Marblehead Bank

Assessment Area(s): MSA 45780

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	188	13.7
Moderate-income	0	0.0	0	0.0	0	0.0	306	22.3
Middle-income	1	100.0	1,375	100.0	21	1.5	328	23.9
Upper-income	0	0.0	0	0.0	0	0.0	553	40.2
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	1	100.0	1,375	100.0	21	1.5	1,375	100.0
	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	5,703	1,730	100.0	30.3	348	6.1	3,625	63.6
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	5,703	1,730	100.0	30.3	348	6.1	3,625	63.6
	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	335	100.0	310	100.0	12	100.0	13	100.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	335	100.0	310	100.0	12	100.0	13	100.0
Percentage of Total Businesses:				92.5		3.6		3.9

Community Contacts

One community contact was utilized in conjunction with this evaluation. The community contact was a coalition of community groups that address housing and social concerns of low- and moderate-income individuals residing in Ottawa County.

According to the contact, the difficulty in addressing housing concerns is that a majority of people looking for affordable housing have no income and low-income housing facilities require that applicants have a credit history, which many LMI individuals do not have. Also, there is high unemployment in Ottawa County that can be contributed in large part to the decrease in tourism and manufacturing jobs. Employment prospects in the county are bleak and because of its location on the lake, living in the county can be expensive.

The contact also stated that moderate-income concerns are mostly located in Marblehead. Many people who have never needed help before need help and are reluctant to ask; by the time they do approach a social service agency, the problem is severe. Too many agencies are competing for grant money and Ohio's ability to help has been diminished due to the state's severe economic issues.

According to the contact, many lenders are not willing to work with people and while the banks have money to lend, the banks are not always willing to counsel and are reluctant to lend.

Marblehead Bank was specifically mentioned by the contact as having conducted a number of financial education and foreclosure assistance activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

A financial institution's loan-to-deposit ratio compares the institution's aggregate loan balances outstanding to its total deposits outstanding. The ratio is a measure of an institution's lending volume relative to its capacity to lend and is derived by adding the quarterly loan-to-deposit ratios and dividing the total by the numbers of quarters. Marblehead's peer group consists of all insured commercial banks having assets less than or equal to \$50 million in a metropolitan area with more than one full-service office.

Marblehead's loan-to-deposit ratio is reasonable despite being considerably lower than the peer group given the bank's size, financial condition, and assessment area credit needs. The loan-to-deposit ratio has averaged 43.92% over the past 18 quarters of operation and, as mentioned earlier, is substantially below the peer group average of 71.38%. The bank's below-peer ratios are the result of a number of factors, including that the majority of housing units in Marblehead are either rentals or second homes that are seasonally occupied and residents tend to be net savers rather than borrowers.

The following table illustrates Marblehead's quarterly loan-to-deposit ratios for 18 quarters since the previous evaluation, along with the average loan-to-deposit ratio for the same period for the bank and the peer.

Loan-to-Deposit Ratios				
As of Date	Net Loans(000s)	Total Deposits (000s)	Bank Ratio	Peer Ratio
June 30, 2009	11,958	28,396	42.11	70.71
March 31, 2009	12,221	29,105	41.99	71.71
December 31, 2008	12,416	27,075	45.86	73.05
September 30, 2008	12,415	21,184	44.05	72.53
June 30, 2008	12,514	28,172	44.42	71.98
March 31, 2008	12,368	26,886	46.00	70.06
December 31, 2007	12,166	26,589	45.76	71.69
September 30, 2007	12,434	27,647	44.97	72.23
June 30, 2007	12,739	28,678	44.42	71.28
March 31, 2007	12,858	17,198	47.28	69.82
December 31, 2006	13,130	28,596	45.92	70.45
September 30, 2006	12,775	27,113	47.12	71.95
June 30, 2006	12,539	27,693	45.28	71.74
March 31, 2006	11,577	26,827	43.15	70.10
December 31, 2005	10,984	25,947	42.33	72.39
September 30, 2005	10,223	26,183	39.04	71.39
June 30, 2005	9,779	24,943	39.21	71.15
March 31, 2005	9,982	24,020	41.56	70.53
Quarterly Loan-to-Deposit Ratio Average Since Previous Evaluation			43.92	71.38

Lending in the Assessment Area

The bank’s consumer (motor vehicle loans), real estate secured (consumer home equity loans), and commercial (small business) lending was analyzed to determine the volume of lending inside and outside the bank’s assessment area. Of the motor vehicle loans made to consumers, 76.7% by volume and 80.9% by dollar amount were made within the bank’s assessment area. Of the consumer home equity loans (secured by real estate), 78.7% of loans by volume and 83.6% by dollar amount were made its assessment area. Lastly, the bank originated 85.2% of commercial small business loans by volume and 56.6% by dollar amount within its assessment area. Therefore, a majority of the bank’s loans by both volume and dollar amount were made inside its assessment area.

The following table illustrates the percentage of loans made inside and outside Marblehead’s assessment area:

Lending Inside and Outside the Assessment Area								
Loan Type	Inside the Assessment Area				Outside the Assessment Area			
	# of Loans	%	\$ (000s)	%	# of Loans	%	\$ (000s)	%
Commercial	23	85.2	1,759	56.6	4	14.8	1,350	43.4
Consumer	56	76.7	2,696	80.9	17	23.3	635	19.1
Real Estate Secured	37	78.7	4,767	83.6	10	21.3	933	16.4
Total	116	78.9	9,222	76.0	31	21.1	2,918	24.0

Geographic Distribution

Because the bank’s assessment area consists of a single middle-income census tract, a geographic distribution analysis was not performed.

Of note, Marblehead’s pattern of lending is primarily concentrated around the outer rims of the peninsula because much of the middle portion of their trade area is comprised of the stone quarry, farm grounds, and nature preserves.

Borrower Distribution

Consumer motor vehicle and home equity loans, and commercial small business lending data were analyzed in conjunction with the review of the demographic and economic characteristics of the assessment area to determine the extent of lending to borrowers of different incomes and to businesses of different sizes. This analysis revealed Marblehead has a reasonable penetration among borrowers of different income levels and an excellent penetration among businesses of different sizes.

Consumer Loans

Motor Vehicle Loans

The bank originated 56 total motor vehicle loans, of which 11 (19.6%) were originated to low-income borrowers; this was greater than the percentage of households at 16.9%. Therefore, the bank's lending to low-income borrowers was considered excellent. The bank made 11 loans (19.6%) to moderate-income borrowers, which was slightly above the percentage of households at 19.2%. Therefore, the bank's lending to moderate-income borrowers was excellent. The bank made 17.9% and 41.1% of its motor vehicle loans to middle- and upper-income borrowers compared to 19.8% and 44.2% of middle- and upper-income households, respectively. Also, 1.8% of loans were originated to borrowers with unknown incomes. Therefore, the borrower distribution for motor vehicle loans to low- and moderate-income borrowers was considered excellent.

Home Equity Loans

The bank originated 37 total home equity loans of which one (2.7%) was originated to low-income borrowers; this was significantly below the percentage of households at 16.9%. Therefore, the bank's lending to low-income borrowers was poor. The bank made four loans (10.8%) to moderate-income borrowers, which was below the percentage of households at 19.2%. Therefore, the bank's lending to moderate-income borrowers was adequate. The bank made 27.0% of home equity loans to middle-income borrowers, which was significantly higher than the percentage of households at 19.8%. The bank originated 56.8% of home equity loans to upper-income borrowers compared 44.2% of upper-income households. Also, 2.7% of loans were originated to borrowers with unknown incomes. Therefore, the borrower distribution for home equity loans to low- and moderate-income borrowers was considered adequate.

Small Business Loans

An analysis of small business lending was conducted to ascertain the extent of lending to businesses of different sizes, including small businesses. Marblehead originated a total of 23 small business loans, of which 100.0% were made to businesses with less than \$1 million in revenue, compared to the percentage of total businesses (92.5%) in the bank's assessment area with revenues of \$1 million or less. Based on this analysis, the bank's lending to small businesses was considered excellent.

According to lending data, 73.9% of the bank's small business loans were extended in an amount of \$100,000 or less. Since smaller-size loans are generally commensurate with the borrowing needs of smaller businesses, Marblehead's lending activity demonstrates that the bank is adequately meeting the credit needs of such businesses.

Response to Consumer Complaints

The bank has not received any CRA-related complaints since the previous examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

A fair lending review was completed in conjunction with the compliance and CRA examinations. No evidence of discrimination or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Marblehead maintains fair lending policies and procedures and provides bank staff with fair lending training.

APPENDIX A

ASSESSMENT AREA MAP

