

# PUBLIC DISCLOSURE

October 26, 1999

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank

Commerce Exchange Bank  
#117216  
25201 Chagrin Boulevard  
Beachwood, Ohio 44122-5633

Supervisory Agency

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

NOTE

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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## I GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of Commerce Exchange Bank prepared by The Federal Reserve Bank of Cleveland, the institution's supervisory agency, as of October 26, 1999. The agency evaluates performance in the assessment area, as it is delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

## II DESCRIPTION OF INSTITUTION

Commerce Exchange Bank ("CEB") is the only subsidiary of Commerce Exchange Corporation. Both CEB and Commerce Exchange Corporation are headquartered in Beachwood, Ohio. The bank had total assets of approximately \$95 million as of June 30, 1999, which comprised nearly 100% of the corporation's total assets.

CEB's mission is to provide high-quality financial services to mid-sized businesses in Cuyahoga County and contiguous counties. (A detailed discussion of the bank's assessment area can be found in the "Description of Assessment Area" section of this report.) The bank does offer consumer loans, however, these loans are incidental to its main line of business. CEB's consumer loans are made primarily to business customers who have personal financial needs. Given the small asset size of the bank and the large geographic area it serves, the bank cannot reasonably be expected to make loans in all areas of the county. However, the bank intends to increase its asset size primarily by increasing its lending portfolio, which should enable the bank to expand into other markets within the county.

Table 1 presents several key financial ratios for Commerce Exchange Bank.

<b>Table 1</b>		
<b>Key Financial Ratios as of June 30, 1999</b>		
<b>Ratio</b>	<b>Bank</b>	<b>Peer</b>
<b>Return on Average Assets</b>	1.00%	1.09%
<b>Net Loans &amp; Leases to Average Assets</b>	66.19%	59.00%
<b>Investments to Average Assets</b>	5.50%	6.03%
<b>Total Deposits to Average Assets</b>	85.19%	85.88%
<b>Net Loans &amp; Leases to Total Deposits</b>	82.17%	70.07%
<b>1- to 4- Family Residential Loans to Average Loans</b>	3.11%	26.82%
<b>Consumer Loans* to Average Loans</b>	1.40%	13.20%
<b>Commercial Loans** to Average Loans</b>	95.43%	51.56%

\* Includes loans to individuals

\*\* Includes commercial & industrial loans, commercial real estate loans, and construction & development loans

The bank's primary mission of serving business customers is evidenced above, as commercial loans represent over 95% of average loans as of June 30, 1999.

CEB operates two branches located in Beachwood and North Olmsted. These communities are located in middle- and upper-income areas of the county. Both branches are conveniently located for business customers in office complexes. These branches do not attract the typical retail business of a "stand-alone" branch. Although the branches originate loans throughout Cuyahoga County, the limited number of facilities affects the bank's ability to effectively serve all areas of the county.

Cuyahoga County is home to a large number of regional and national financial institutions such as, Bank One, Charter One Bank, Fifth Third Bank, First Ment Bank, Huntington Bank, Key Bank, Metropolitan Savings Bank, National City Bank, Ohio Savings Bank, and Firststar Bank (formerly known as Star Bank) Several smaller financial institutions, like Commerce Exchange Bank, also provide financial services in the county Therefore, a tremendous amount of competition exists for loan and deposit dollars

There are no legal or other impediments that would hamper CEB's ability to meet the community's credit needs

### III DESCRIPTION OF ASSESSMENT AREA

Commerce Exchange Bank has defined Cuyahoga County, Ohio, as its assessment area This assessment area complies with the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate- income geographies (i e , census tracts or block numbering areas) Additionally, loans are made in the counties contiguous to Cuyahoga County

The assessment area includes 499 geographies as detailed in Appendix A Tables 2 and 3 present relevant demographic information for Cuyahoga County The area median household income and the area median family income for Cuyahoga County are \$28,595 and \$35,749, respectively The median income levels within the county are comparable to the statewide median income levels Households are defined as all persons occupying a housing unit, while families are defined as a household with occupants related by birth, marriage, or adoption

<b>Type of Geography*</b>	<b># and % of Geographies</b>	<b># and % of Population</b>	<b># and % of Households</b>	<b># and % of HH that are Families</b>	<b># and % of OO** Units</b>
<b>Low-Income</b>	122 25%	207,814 15%	79,781 14%	49,401 13%	25,676 7%
<b>Moderate-Income</b>	91 18%	226,847 16%	88,550 16%	56,332 15%	41,597 12%
<b>Middle-Income</b>	176 35%	591,556 42%	247,809 44%	159,460 43%	166,113 48%
<b>Upper-Income</b>	110 22%	385,923 27%	147,163 26%	108,350 29%	115,599 33%
<b>Total</b>	499	1,412,140	563,303	373,183	348,985

\* Geographies are classified as follows: low-income geographies have median family incomes less than 50% of the area median family income, moderate-income geographies have median family income from 50% to less than 80% of the area median family income, middle-income geographies have median family income from 80% to less than 120% of the area median family income, and upper-income geographies have median family income equal to or greater than 120% of the area median family income

\*\* Owner-occupied units

This table indicates that within the bank's assessment area, 43% of the geographies are low- or moderate- income geographies. However, only approximately 30% of the population, households, and families and 19% of the owner-occupied units are located within these geographies. The majority of the population, households, families, and owner-occupied housing units are located within the middle- and upper- income geographies of Cuyahoga County.

<b>Income Level*</b>	<b>Number of Households</b>	<b>% of Households</b>	<b>Number of Families</b>	<b>% of Families</b>
<b>Low-Income</b>	152,375	27%	82,352	22%
<b>Moderate-Income</b>	90,021	16%	63,808	17%
<b>Middle-Income</b>	106,467	19%	86,290	23%
<b>Upper-Income</b>	214,440	38%	140,733	38%
<b>Below Poverty Level**</b>	77,161	14%	40,982	11%

\* Household/family income levels are classified as follows: low-income households/families have median household/family incomes less than 50% of the area median household/family income, moderate-income households/families have median household/family income from 50% to less than 80% of the area median household/family income, middle-income households/families have median household/family income from 80% to less than 120% of the area median household/family income, and upper-income households/families have median household/family income equal to or greater than 120% of the area median household/family income.

\*\* Subset of low-income households/families.

This table indicates that 43% of the households and 39% of the families living within the bank's assessment area are low- or moderate- income. These figures are comparable to the percentages of low- and moderate- income tracts within the assessment area. Of the low-income households and families, approximately 50% are below the poverty level.

The assessment area has 604,538 housing units. Of these units, 58% are owner-occupied, 35% are rental units, and 7% are vacant. One- to four- family units comprise 75% of the housing stock, while multi-family units (five or more units) comprise 23% of the remaining housing stock. The median housing value is \$71,228 and the median gross rent is \$397 per month. The median housing age is 40 years, with 45% of the housing stock built prior to 1950.

The local economy is good and has experienced a steady growth rate. The Ohio Bureau of Employment Services estimated the unemployment rate of Cuyahoga County to be 4.6% in September 1999, which is slightly higher than the statewide and national unemployment rates of 4.2% and 4.1%, respectively.

There are approximately 41,142 business establishments operating within CEB's defined assessment area of Cuyahoga County. Of these establishments over 35,000 have sales volumes of less than \$1 million. Table 4 shows the distribution of these establishments by geography. Moreover, Table 4 also reflects the distribution of the bank's small business loan originations by the income level of census tracts.

<b>Table 4</b>				
<b>Distribution of Small Business Loans By Geography</b>				
<b>Year</b>	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>
<b>1999</b>	27/11 4% \$5,774/13 0%	20/8 4% \$5,721/12 8%	103/43 5% \$15,013/33 7%	87/36 7% \$18,022/40 5%
<b>Geographies</b>	122/24 4%	91/18 2%	176/35 3%	110/22 0%
<b>Assessment Area Business Establishments *</b>	5,617/16 0%	3,858/11 0%	13,234/37 7%	12,382/35 3%

\* Business establishments with sales volumes of less than \$1 million, as a percentage of total establishments in the assessment area with sales of less than \$1 million

Two community contacts were conducted in conjunction with the examination to assess the economic development of the bank's assessment area. Both contacts indicated that Cuyahoga County continues to prosper. The primary needs identified through these contacts included both affordable housing and small business loans.

#### IV INSTITUTION RATING

This institution is rated "satisfactory."

Major factors contributing to this rating include

- a reasonable loan-to-deposit ratio,
- a majority of loans inside the assessment area,
- a reasonable dispersion of loans throughout the assessment area geographies, and
- a reasonable penetration of loans among business customers of different revenue levels

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

##### Loan-To-Deposit Ratio

The loan-to-deposit ratio reflects the level of deposited funds reinvested in the community through loans. An average loan-to-deposit ratio of 72.85% was calculated using the ratios from the eight quarters between September 30, 1997, and June 30, 1999, which represents the time period since the previous examination. This average loan-to-deposit ratio compares favorably with the average ratio of 69.06% for peer banks during the same time period. The bank's loan-to-deposit ratio has improved from 74.56% at September 30, 1997, to 82.17% at June 30, 1999. This ratio is currently well above the peer group average ratio of 70.07% for similar sized banks at June 30, 1999.

##### Lending Within the Assessment Area

To determine the level of lending within the bank's assessment area, all outstanding consumer and commercial loans originated since the previous examination were analyzed.

Table 5 shows the number and amount of the bank's lending inside of its assessment areas by loan product.

<b>Table 5 Lending Within Assessment Area by Loan Product</b>				
<b>Loan Type</b>	<b>Number of Loans</b>	<b>% of Total Loans</b>	<b>Amount of Loans *</b>	<b>% of Total Loans</b>
<b>Consumer</b>	32	67%	\$2,095	64%
<b>Commercial</b>	237	78%	\$44,530	80%
<b>Total</b>	269	76%	\$46,625	79%

\* In thousands

A total of 354 consumer and commercial loans were outstanding totaling approximately \$59 million. Of these totals, 269 loans (76%) totaling approximately \$46.6 million (79%) were within the bank's assessment area. These figures indicate that a majority of the bank's loans are within its assessment area. All lending outside of the bank's assessment area was within the contiguous counties. Lending outside the assessment area was concentrated in Geauga, Lake, and Summit counties near the bank's Beachwood office and Lorain County near the bank's North Olmsted office.



## Geographic Distribution

Table 6 shows the number and amount of the bank's consumer and commercial lending in each category of geography as a percentage of the number and amount of total consumer and commercial lending

<b>Table 6 Distribution of Consumer and Commercial Loans by Geography</b>				
<b>Type of Loan</b>	<b>Low- Income</b>	<b>Moderate- Income</b>	<b>Middle- Income</b>	<b>Upper- Income</b>
<b>Consumer Loans *</b>	3% 5%	3% 2%	22% 18%	72% 75%
<b>Commercial Loans *</b>	11% 13%	8% 13%	44% 34%	37% 40%
<b>Geographies</b>	<b>24.4%</b>	<b>18.2%</b>	<b>35.3%</b>	<b>22.0%</b>
<b>Population</b>	15%	16%	42%	27%
<b>Assessment Area Business Establishments *</b>	16.0%	11.0%	37.7%	35.3%

\* Number and amount of consumer and commercial loans as percentages of total consumer and commercial loans within the assessment area

Table 6 shows that CEB's percentage of consumer lending is concentrated in middle- and upper-income geographies, which is consistent with the geographic locations of the bank's branches as well as with the bank's strategic focus of providing consumer loans as an incident to its commercial lending

CEB's commercial lending is widely dispersed throughout the assessment area, with 19% of the number and 26% of the amount of loans made in low- and moderate- income areas. The majority of the bank's commercial lending is within the middle- and upper- income geographies of Cuyahoga County, which is again consistent with the geographic locations of the bank's branches and the small businesses within the assessment area.

The map in Appendix B demonstrates the dispersion of the bank's consumer and commercial lending. This map shows that lending in low- and moderate- income geographies is concentrated in downtown Cleveland and the area northeast of downtown. These geographies contain the small- and mid-sized businesses, which the bank targets according to its strategic plan. The remaining low- and moderate-income geographies within the assessment area are largely residential, therefore, lending in these geographies would not reasonably be expected.

CEB's geographic distribution of loans reflects a reasonable penetration throughout the assessment area.

## Borrower Distribution

To assess the borrower distribution, borrower income for consumer loans and gross annual revenue for commercial loans were collected on a sample of the loans within the bank's assessment area.

Table 7 shows the number and amount of the bank's consumer lending in each category of borrower income as a percentage of the number and amount of consumer loans sampled. Lending percentages are compared to the percentage of households and families in each income category.

Type of Loan	Low- Income	Moderate- Income	Middle- Income	Upper- Income
<b>Consumer Loans *</b>	6% 7%	25% 19%	3% 1%	63% 73%
<b>Households **</b>	27%	16%	19%	38%
<b>Families **</b>	22%	17%	23%	38%

\* Number and amount of consumer loans as a percentage of total consumer loans

\*\* Percentage of total households or families

Table 7 shows that CEB's consumer lending to low- and moderate- income borrowers is significantly lower than the percentages of low- and moderate- income households and families within the bank's assessment area. However, given the bank's strategic focus on commercial lending and the geographic locations of the bank's branches, the distribution of consumer loans by income level appears reasonable.

CEB made 121 commercial loans to businesses with less than \$1 million in gross annual revenues, which represents 68% of the commercial loans sampled. These 121 commercial loans totaled \$14.1 million, which represents 47% of the dollar amount of commercial loans sampled. The majority of the bank's commercial loans are to businesses with less than \$1 million in annual revenues.

Table 8 shows the distribution of commercial loans by gross annual revenue of the business

Table 8 Commercial Loans by Gross Annual Revenue		
Gross Annual Revenue	Number of Loans	% of Loans Sampled
Less than \$100,000	43	24%
\$100,000 to less than \$250,000	29	16%
\$250,000 to less than \$500,000	17	10%
\$500,000 to less than \$750,000	25	14%
\$750,000 to \$1,000,000	7	4%

CEB's distribution of borrowers reflects a reasonable penetration among business customers of different revenue sizes

Table 9 shows the number and amount of commercial loans by loan amount as a percentage of commercial loans sampled

Table 9 Commercial Loans by Loan Amount at Origination			
Commercial Loans	Loan Amount ≤ \$100,000	Loan Amount > \$100,000 ≤ \$250,000	Loan Amount > \$250,000 ≤ \$1,000,000
Number of Loans	120 51%	65 27%	52 22%
Amount of Loans	\$5,691 13%	\$10,954 25%	\$27,886 63%

This table shows that CEB makes commercial loans in varying amounts, with a concentration of loans less than \$100,000

### Consumer Complaints

No complaints were received by the Federal Reserve Bank of Cleveland or Commerce Exchange Bank regarding the bank's performance under the Community Reinvestment Act

### Fair Lending Laws and Regulations

No violations of the fair lending laws were noted during the examination. CEB's loan policy contained an Equal Credit Opportunity Act statement. Interviews with employees revealed an understanding of the regulatory requirements regarding fair lending.

**V. Appendix A**



**VI. Appendix B**

