

PUBLIC DISCLOSURE

August 25, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

ShoreBank, Cleveland
RSSD #2190521

540 East 105th Street
Cleveland, OH 44108

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.

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INSTITUTION'S RATING

INSTITUTION'S CRA RATING: ShoreBank, Cleveland is rated "**Outstanding.**"

The following table indicates the performance level of ShoreBank, Cleveland with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	<u>NAME OF FINANCIAL INSTITUTION</u>		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding	X		X
High Satisfactory			
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

*The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

The major factors supporting the institution's rating include:

- Excellent responsiveness to credit needs of assessment area;
- Excellent geographic distribution of loans;
- All small business loans made to businesses with gross annual revenues of \$1 million or less or to nonprofit organizations;
- Use of innovative and flexible lending practices;
- Leadership role in making community development loans;
- Adequate level of qualified investments;
- Delivery systems readily accessible to geographies and business customers in assessment area; and
- A leader in providing community development services.

SHOREBANK, CLEVELAND

DESCRIPTION OF INSTITUTION

ShoreBank, Cleveland (SBC), with assets of \$64.2 million as of June 30, 2003, is a subsidiary of ShoreBank Cleveland Corporation (SBCC), which is a subsidiary of ShoreBank Corporation. SBCC also owns two non-bank subsidiaries ShorePlace Development Corporation, and Shore Enterprise Group. ShoreBank Corporation of Chicago, Illinois had assets of \$1.4 billion as of June 30, 2003. The parent holding company also owns two other banks, Shorebank of Chicago and Shorebank Pacific in the Pacific Northwest, as well as other non-bank subsidiaries. SBC has one office located at 540 East 105th Street in Cleveland, Ohio.

SBC is a community development financial institution ("CDFI") with the express purpose of utilizing its resources to contribute to the redevelopment of its targeted neighborhoods, which are part of its assessment area (a full discussion of the bank's assessment area can be found in the section on "Assessment Area"). Because of this express purpose, the bank only offers credit facilities that promote the economic development and revitalization of distressed areas within Cuyahoga County and loans to assist in the creation and expansion of small businesses. The bank does not offer any consumer retail products or services.

There are no legal or other impediments that would hamper the bank's ability to meet the community's credit needs. At the previous examination of November 1, 1999, SBC received a "Satisfactory" CRA rating.

Assessment Area

SBC has defined its assessment area as being Cuyahoga County, located in the Cleveland-Lorain-Elyria, OH PMSA 1680. The city of Cleveland is the county seat and the central city of the PMSA. The following chart shows key demographic information for the county based on 2000 census data.

CUYAHOGA COUNTY ASSESSMENT AREA								
DEMOGRAPHICS								
2002 HUD Median Family Income (MSA): \$59,900	Tract Distribution		Families					
			Families by Tract		Families-Poverty as a % of Families by Tract		Families by Family Income	
Income Categories	#	%	#	%	#	%	#	%
Low	104	20.7%	43,527	12.2%	16,116	37.0%	82,548	22.1%
Moderate	118	23.5%	69,179	19.4%	11,694	16.9%	64,462	17.1%
Middle	156	31.1%	134,580	37.8%	6,547	4.9%	74,855	23.1%
Upper	114	22.7%	108,935	30.6%	2,178	2.0%	134,356	37.7%
NA	10	2.0%	0	0.0%	0	0.0%	0	0.0%
Total	502	100.0%	356,221	100.0%	36,535	10.3%	356,221	100.0%
Housing Units by Tract								
	Total Units	Owner Occupied		Rental Occupied		Vacant		
	#	#	%	#	%	#	%	
Low	84,942	25,015	6.9%	29.4%	46,617	54.9%	13,310	15.7%
Moderate	137,640	55,657	15.4%	40.4%	67,935	49.4%	14,048	10.2%
Middle	232,183	154,459	42.8%	66.5%	66,642	28.7%	11,082	4.8%
Upper	162,099	125,857	34.9%	77.6%	29,259	18.1%	6,983	4.3%
NA	39	0	0.0%	0.0%	16	41.0%	23	59.0%
Total	616,903	360,988	100.0%	56.6%	210,469	34.1%	45,446	7.4%
Businesses by Tract and Revenue Size								
	Total Businesses by Tract		Under \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	7,382	10.9%	5,678	10.9%	841	13.5%	863	9.0%
Moderate	6,848	10.1%	5,332	10.3%	685	11.0%	831	8.7%
Middle	25,328	37.5%	19,782	38.1%	2,248	36.2%	3,298	34.6%
Upper	24,665	36.5%	18,738	36.1%	1,969	31.7%	3,958	41.5%
NA	3,391	5.0%	2,333	4.5%	466	7.5%	592	6.2%
Total	67,614	100.0%	51,863	100.0%	6,209	100.0%	9,542	100.0%
Percentage of Total Businesses:				76.7%	9.2%		14.1%	

Sources: 2000 Census Data, 2002 Dun & Bradstreet business demographic data.
NA Tracts are tracts without household or family income.

The population of Cuyahoga County has been steadily declining over the past 30 years as reflected in decennial census data. The median family income in the county has increased by 38.6% from 1990 to 2000 and the number of low- and moderate-income families has risen by only 0.5% during the same period. However, the number of low- and moderate-income census tracts has increased by 11%, reflecting a decrease in low-income tracts from 109 to 104 from 1990 to 2000 and an increase in moderate-income tracts from 91 to 118 during the same time period. The majority of the increases in the moderate-income areas are found in the suburbs surrounding Cleveland.

Although still referred to as a "rust-belt" city, employment in Cleveland and Cuyahoga County has been making a transition from being primarily focused on manufacturing to service industries. American Greetings, Sherwin-Williams, Ford Motor Company, and General Motors Company continue to be major employers in the area; however, other major employers include Case Western Reserve University, Cleveland Clinic Health System, Continental Airlines, and University Hospital Health System. Additionally, two large complex banking organizations, National City Corporation and KeyCorp, have their headquarters in Cleveland. As of July 2003, the unemployment rate in Cuyahoga County was 6.6%, slightly higher than the national rate of 6.3% and the State of Ohio rate of 6.4%.

As a CDFI, SBC focuses special emphasis on eight targeted neighborhoods within the city of Cleveland: Buckeye-Shaker, Fairfax, Forest Hills, Glenville, Hough, St. Clair-Superior, South Collinwood, and University. These eight areas are among the most distressed in the greater Cleveland area. Under the City of Cleveland's formal revitalization plan, efforts are being

concentrated to promote the integration of income levels and small businesses, services, and housing throughout Cleveland's neighborhoods.

Because of the need for business development, the area just east of downtown Cleveland, along the lakefront, has been declared an Empowerment Zone. Also, the State of Ohio has designated Cleveland as a distressed city, making it a "Priority Investment Area" and, subsequently, eligible for special state programs.

Information from community contacts conducted in the area indicated a need for financial education; efforts to revitalize the near-west side of Cleveland, particularly the Hispanic communities; and a need for loan programs for the rehabilitation of mixed-use properties.

SCOPE OF EXAMINATION

Because of the size of its parent holding company, Shorebank Corporation, SBC became subject to the data collection requirements and evaluation procedures for large banks on January 1, 2002. Therefore, this examination covers the period from January 1, 2002 through August 25, 2003. However, the lending data evaluated for assessment area concentration and geographic and borrower distribution covers the period from January 1, 2002 through June 30, 2003. As noted previously, SBC only offers commercial loans and lines of credit and loans for the acquisition and/or rehabilitation of multi-family dwellings. These loans were used to determine the bank's concentration of loans inside and outside of its assessment areas as well as the distribution of loans within the assessment areas by geography and by borrower revenue. Additionally, the activities of the bank's affiliates were included in this evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test is rated “Outstanding” based on excellent responsiveness to assessment area credit needs, with all loans made within the bank’s assessment areas; geographic distribution that reflects an excellent penetration throughout the assessment area; all loans made to small businesses or nonprofit organizations with use of various flexible loan products; and an excellent level of community development lending.

Lending Activity

Considering the bank's size, resources, and mission, SBC's lending levels reflect excellent responsiveness to assessment area credit needs. As noted previously, all of the bank's loans have either a direct impact on the revitalization of distressed areas, provide affordable housing for low- and moderate-income individuals, or assist in the creation and/or expansion of small businesses. In its small business lending efforts, the bank also places significant concentration in working with individuals and organizations that have traditionally been disenfranchised.

In addition to offering traditional commercial loan products offered by the bank, ShoreGrowth Fund provides start-up and expansion capital for businesses in the early stages of development. Loans range from \$10,000 to \$250,000 and borrowers must agree to work with an SBC labor force specialist to employ Cleveland-area residents. ShoreBridge Capital is a \$5.75 million mezzanine debt fund that assists existing business with minimal capital to expand their operations. Loans ranging from \$100,000 to \$500,000 are available for working capital, construction projects, business acquisition, debt restructuring, and other purposes. In this program as well, borrowers must agree to work with the labor specialist to employ Cleveland residents. The bank also has lending specialists who focus on loans to entities who provide services to low- and moderate-income individuals and to faith-based organizations.

Assessment Area Concentration

All of the bank's loans were made within the assessment area.

Geographic Distribution

The geographic distribution of loans reflects excellent penetration throughout the assessment area. The bank's lending is heavily concentrated in low- and moderate-income tracts.

All of SBC's loans reportable under the Home Mortgage Disclosure Act (HMDA) involved multi-family dwellings. Of the eight loans made during the period under review, five/62.5% loans were made in low-income tracts and one/12.5% in a moderate-income tract. The other two loans were made in middle-income tracts. In comparison, within the assessment area, 14% of the multi-family dwellings are located in low-income tracts, 28.8% in moderate-income tracts, and 37.2% in middle-income tracts.

Twenty-five small business loans (commercial loans of \$1 million or less) were made during the period under review. One loan was made in a tract designated as having no income. Of the remaining 24 loans, 11/45.8% were made in low-income tracts, eight/33.3% in moderate-income tracts, four/16.7% in middle-income tracts, and one/4.2% in an upper-income tract. As shown in

the demographic information table above, 10.9% of the businesses in the county are located in low-income tracts and 10.1% in moderate-income tracts.

Distribution of Loans by Income Level of the Borrower

Given the product lines offered, the distribution of borrowers reflects excellent penetration among businesses of different sizes. All of the bank's small business loans were made to either businesses with gross annual revenues of \$1 million or less or to nonprofit organizations. A further analysis of the 25 small business loans shows that 10/40% were in amounts of \$100,000 or less; four/16% in amounts of greater than \$100,000 but less than \$250,000; and 11/44% in amounts of greater than \$250,000.

Under the requirements of HMDA, borrower income information is not reportable for multi-family dwelling loans.

Community Development Lending:

Considering SBC's capacity and resources, it is a leader in making community development loans. Three community development loans totaling almost \$3.3 million were made to two organizations that provide services to low- and moderate-income individuals. In addition, as noted above, six of the eight multi-family dwelling loans were made in low- and moderate-income areas. These six loans totaled slightly more than \$1.4 million.

INVESTMENT TEST

The Investment Test is rated "Low Satisfactory." SBC has an adequate level of qualified community development investments. The bank's qualified investments are comprised entirely of 10 donations totaling \$4,800 to community development organizations. Although the dollar volume is small, the donations reflect a good responsiveness to credit and community development needs.

ShoreBank Corporation controls the bank's investment portfolio and decisions regarding the purchases or securities and other investments are made at the holding company level.

SERVICE TEST

The Service Test is rated "Outstanding" based on the accessibility of delivery systems and the level of involvement in providing community development services.

Retail Services

SBC's delivery systems are readily accessible to all portions of the bank's assessment area. Although the bank has only one branch, which is open to the public one hour in the morning and one hour in the afternoon, the branch office is not SBC's primary delivery system. Prospective and existing customers can meet with bank personnel at times and locations convenient to the customer. Lending officers are expected to seek out opportunities and develop loan relationships.

Products and services are tailored to the convenience and needs of the assessment area, particularly low- and moderate-income geographies, low- and moderate-income individuals, and small businesses and nonprofit organizations. In addition to products mentioned previously, the

bank offers special loan products for the purpose of the acquisition, construction, and/or rehabilitation of affordable housing. Also, the bank offers credit products that are enhanced through federal, state, and municipal funding sources such as the Energy Loan Fund, low-income and historic tax credits, the City of Cleveland Economic Development loan program, State of Ohio loan programs, and the Small Business Administration.

Community Development Services

SBC is a leader in providing community development services. Directors, officers, and employees of the bank provide leadership and financially-related services to several community development organizations that serve the greater Cleveland area. Organizations with which representatives are involved include, but are not limited to the following organizations that address providing affordable housing for low- and/or moderate-income individuals and families, providing services for low- and moderate-income individuals and families, promote economic development and/or revitalization of low- and moderate-income areas or areas designated for redevelopment, and provide financing for small businesses:

- Family Transitional Housing
- Catholic Charities Services Corporation
- Fatima Family Center
- Greater Cleveland Growth Association
- Cleveland Commission on Economic Partnership and Inclusion
- Cleveland Neighborhood Development Corporation
- Glenville Development Corporation
- Growth Capital Association
- Lutheran Housing Corporation
- Church of the Open Door – Community Impact Organization.

In addition, SBC and its affiliates provide business services, entrepreneurial assistance, and neighborhood revitalization programs. The bank also provides the services of a labor specialist who helps businesses employ Cleveland-area residents. More recently, SBC has been instrumental in a project identifying submarkets within the eight targeted neighborhoods where there are opportunities for housing development and the rehabilitation of abandoned housing and such transformation is realistic. SBC has brought together public and private organizations to address the transformation of these neighborhoods. Also, SBC is making credit available to help facilitate these transformations.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

At the most recent consumer affairs examination, no violations were noted of fair lending laws or regulations. The bank has policies and procedures to address maintaining compliance with these laws and regulations and bank personnel are provided ongoing training on fair lending issues and requirements.

CRA APPENDIX A

SCOPE OF EXAMINATION

SCOPE OF EXAMINATION		
TIME PERIOD REVIEWED	1/1/2002 - 8/25/2003	
FINANCIAL INSTITUTION ShoreBank, Cleveland, Cleveland, Ohio		PRODUCTS REVIEWED Multi-Family Small Business
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED -
ShorePlace Development Corporation	Affiliate	Loans Community Development Services
Shore Enterprise Group	Affiliate	Loans Community Development Services

CRA APPENDIX B

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.

Block numbering area (“BNA”): A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

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 household 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.

Limited review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Rated area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an

institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

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 C
ASSESSMENT AREA MAP

ShoreBank Cleveland Assessment Area Overview with Main Office Location

