

# PUBLIC DISCLOSURE

July 14, 1997

## 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 July 14, 1997. The agency evaluates performance in assessment area(s), as they are 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") has been in operation since 1985 and 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 \$69 million as of March 31, 1997, 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 loan customers are primarily business loan 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 Key Financial Ratios as of March 31, 1997</b>		
<b>Ratio</b>	<b>Bank</b>	<b>Peer</b>
<b>Return on Average Assets</b>	1.61%	1.19%
<b>Net Loans &amp; Leases to Average Assets</b>	64.40%	60.10%
<b>Investments to Average Assets</b>	25.59%	31.83%
<b>Total Deposits to Average Assets</b>	84.29%	88.29%
<b>Net Loans &amp; Leases to Total Deposits</b>	79.70%	69.24%
<b>1-4 Family Residential Loans to Average Loans</b>	4.73%	27.27%
<b>Consumer Loans* to Average Loans</b>	2.77%	10.68%
<b>Commercial Loans** to Average Loans</b>	92.37%	41.73%

\* Includes loans to individuals and credit card loans.

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

The ratios for net loans and leases to average assets and to total deposits indicates that the bank has substantial more of its assets and deposits invested in loans than similarly sized peer banks. The percentage of commercial loans, consumer loans, and residential loans to average loans demonstrates the bank's primary mission of serving business customers.

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, Dollar Bank, Fifth Third Bank, First Merit Bank, Home Bank, Huntington Bank, Key Bank, Metropolitan Savings Bank, National City Bank, Ohio Savings Bank, Republic Savings Bank, and Star Bank. Several smaller financial institutions, like Commerce Exchange Bank, also provide financial services to 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>Table 2 Demographic Data by Geography</b>					
<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 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>Table 3 Demographic Data by Income Level</b>				
<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%	63,853	17%
<b>Middle-Income</b>	106,467	19%	86,335	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 4.9% in April 1997, which is slightly above the statewide and national unemployment rates of 4.6% and 4.8%, respectively.

The service, retail, and manufacturing industries employ the majority of the labor force. Major employers include, but are not limited to, federal, county, and city governments, Cleveland Clinic Foundation, University Hospitals Health Systems, Cleveland Board of Education, Ford Motor Company, KeyCorp, LTV Corporation, and National City Corporation. There are approximately 37,000 business establishments located in Cuyahoga County. Of these establishments, 93% employ less than 50 employees. Table 4 shows the distribution of establishments by municipality. (Not all municipalities reported on the number of establishments.)

<b>Table 4 Distribution of Business Establishments by Municipality</b>		
<b>Municipality</b>	<b>Number of Establishments</b>	<b>% of Establishments</b>
Bay Village	260	0.7%
Beachwood	2,150	5.8%
Bedford	1,055	2.8%
Berea	475	1.3%
Brecksville	411	1.1%
Broadview Heights	334	0.9%
Brooklyn	352	0.9%
Brook Park	453	1.2%
Chagrin Falls	993	2.7%
Cleveland	12,341	33.3%
Cleveland Heights	919	2.5%
East Cleveland	366	1.0%
Euclid	995	2.7%
Fairview Park	433	1.2%
Garfield Heights	863	2.3%
Gates Mills	76	0.2%
Lakewood	1,117	3.0%
Maple Heights	537	1.4%
Mayfield Heights	1,294	3.5%

North Olmsted	1,118	3.0%
North Royalton	666	1.8%
Olmsted Falls	202	0.5%
Parma	1,486	3.7%
Parma Heights	1,587	4.0%
Richmond Heights	802	2.2%
Rocky River	910	2.5%
Seven Hills	1,221	3.3%
Solon	935	2.5%
South Euclid	694	1.9%
Strongsville	870	2.3%
Westlake	1,170	3.2%
Cuyahoga County	37,085	100.0%

This table shows that the majority of the establishments are located in Cleveland followed by Beachwood, Parma Heights, Parma, Mayfield Heights, Seven Hills, Westlake, North Olmsted, and Lakewood. These municipalities account for over 60% of the establishments in Cuyahoga County.

Two community contacts were conducted in conjunction with the examination to assess the economic development of the bank's assessment area. Both contacts, as well as information provided by the Research Department of this Reserve Bank, indicate that Cuyahoga County continues to prosper. The primary needs identified through these contacts included both affordable housing loans and business loans, especially 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 substantial 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 67.9% was calculated using the ratios from the eight quarters between June 1995 and March 1997, which represents the time period since the previous examination. This average loan-to-deposit ratio compares favorably with the average ratio of 67.3% for peer banks during the same time period. The bank's loan-to-deposit ratio has significantly improved from 65.2% on June 30, 1995, to 79.7% on March 31, 1997. This ratio is currently well above the peer ratio of 69.2% for similar banks on March 31, 1997.

**Several of the bank's loans have been made to promote economic development and affordable housing throughout Cuyahoga County. The bank made loans to thirteen developers who purchase and rehabilitate residential properties for affordable housing. Numerous loans have been made to businesses to acquire, rehabilitate, or expand commercial facilities which have resulted in the creation of several hundred jobs throughout the county. CEB has also made loans to community organizations which provide necessary community services such as counseling and outreach to low- and moderate-income individuals and families and day care services.**

##### **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 to determine the geographic location of the loans.**

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>				
Loan Type	Number of Loans	% of Total Loans	Amount of Loans *	% of Total Loans
Consumer	45	78%	\$2,476	82%
Commercial	232	84%	\$36,038	76%
Total	277	83%	\$38,514	76%

\* In thousands.

A total of 334 consumer and commercial loans were outstanding totaling approximately \$50.6 million. Of these totals, 277 loans (83%) totaling approximately \$38.5 million (76%) were within the bank's assessment area. These figures indicate that a substantial 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

A review of lending within the bank's assessment area indicates that CEB made loans in 114 (23%) of the 499 geographies within Cuyahoga County. 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.

<p style="text-align: center;"><b>Table 6</b>  <b>Distribution of Consumer and Commercial Loans</b>  <b>by Geography</b></p>				
Type of Loan	Low- Income	Moderate- Income	Middle- Income	Upper- Income
Consumer Loans *	2%	0%	20%	78%
	1%	0%	30%	69%
Commercial Loans *	16%	7%	34%	42%
	20%	7%	20%	54%

\* 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 23% of the number and 27% 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.

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 just immediately west of the Cuyahoga River 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.

<b>Table 7 Distribution of Consumer Loans by Borrower Income</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>	<b>9% 6%</b>	<b>9% 4%</b>	<b>12% 4%</b>	<b>70% 86%</b>
<b>Households **</b>	<b>27%</b>	<b>16%</b>	<b>19%</b>	<b>38%</b>
<b>Families **</b>	<b>22%</b>	<b>17%</b>	<b>23%</b>	<b>38%</b>

\* 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 83 commercial loans to businesses with less than \$1 million in gross annual revenues, which represents 61% of the commercial loans sampled. These 83 commercial loans totaled \$10.6 million, which represents 56% 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	36	36%
\$100,000 to less than \$250,000	23	23%
\$250,000 to less than \$500,000	17	17%
\$500,000 to less than \$750,000	16	16%
\$750,000 to \$1,000,000	8	8%

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	62%	24%	14%
Amount of Loans	22%	31%	47%

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**

