



PUBLIC DISCLOSURE

December 01, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Waterford Bank, National Association
Charter Number 24685

3900 North McCord Road
Toledo, OH 43617

Office of the Comptroller of the Currency
Northern Ohio Field Office
200 Public Square Suite 1610
Cleveland, OH 44114-2301

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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The primary factors supporting the bank's rating are:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the institution's size and financial condition, and credit needs of its assessment area (AA).
- The bank originates a majority of its loans within its AA.
- The bank's distribution of loans to businesses of different sizes meets the standard for satisfactory performance, and its geographic distribution of small loans to businesses among geographies of different income levels is reasonable.
- The bank's community development (CD) performance through qualified CD loans, investments, and services demonstrates satisfactory responsiveness to the CD needs of the AA.

Scope of Examination

We evaluated Waterford Bank, N.A.'s (Waterford) performance in relation to the Community Reinvestment Act (CRA) using full-scope CRA intermediate small bank procedures. The evaluation period for this examination covered August 16, 2011, through December 1, 2014. Specifically, we assessed the bank's lending performance based on its lending within its assessment area (AA) during 2012 and 2013. However, our review period for community development (CD) lending, investments, and services was August 16, 2011, through December 1, 2014. The bank's previous CRA evaluation was dated August 15, 2011, utilized CRA small bank procedures, and covered an evaluation period from January 1, 2009, through August 15, 2011.

As described in the *Description of Institution* and the *Description of Assessment Areas* sections of this Performance Evaluation, Waterford has opened one new branch office since its prior CRA evaluation. The opening of the branch did not change the bank's AA.

The procedures used to assess Waterford's performance focused on the bank's primary lending products as well as CD activities. We also used other supporting information while evaluating the bank's CRA performance. This information included 2010 U.S. Census data, bank records, deposit market share data, and information from governmental websites regarding the characteristics and economy of the bank's AA. We also took into consideration information derived through community contacts conducted prior to our evaluation.

Based on bank reports for lending activity during the review period and discussions with senior management, we determined that the bank's primary lending focus is commercial or business loans, and that its secondary focus is home purchase and refinance loans. Please see the *Description of Institution* section of this Performance Evaluation for support. We also determined that home improvement, farm, and consumer installment loans are not a focus, as the bank only originated one home improvement loan in 2012 and 2013, and farm and consumer installment loans do not constitute a significant portion of the bank's overall loan portfolio. Specifically, less than one percent of the bank's overall loan portfolio is comprised of these types of loans. Therefore, we did not consider home improvement, farm, or consumer installment loans as part of our evaluation, and we gave more consideration and weight to Waterford's commercial or business lending when evaluating the bank's CRA performance.

We tested the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) data prior to our on-site CRA evaluation. We also tested the accuracy of the bank's small business lending data and CD activities during our on-site evaluation. Our reviews found that the data was reliable, and that the CD loans, investments, and services, met regulatory requirements.

Description of Institution

Waterford is a full-service intrastate community bank headquartered in Toledo, Ohio, and a wholly owned subsidiary of Waterford Bancorp, Inc., a one-bank holding company also headquartered in Toledo, Ohio. As of September 31, 2014, the bank had approximately \$481 million in total assets, compared to \$450 million as of December 31, 2013, and \$440 million as of December 31, 2012.

Waterford has two branch offices located in the Toledo, Ohio Metropolitan Statistical Area (MSA). The primary branch office is part of the bank's main office, located west of the City of Toledo on the border of Toledo and Sylvania, Ohio. The second branch is located in Perrysburg, Ohio. Waterford opened the Perrysburg branch office in 2012. There is no difference in branch hours or services. However, the Perrysburg branch offers drive-through services while the branch located in the main office does not. Waterford does not operate any automated teller machines (ATM). The bank did not close any branch offices or banking centers during this evaluation period.

Waterford began operations in August of 2007 as a commercial bank, focusing on lending and offering other banking services to small- and medium-sized businesses as well as the owners and executives of those companies. Prior to November 2011, the bank offered home purchase and home refinance loans primarily as a convenience to their business customers, and did not actively market these products. Subsequent to November 2011, the bank expanded its mortgage lending program and began to market home purchase and refinance mortgage loans within the bank's AA. As a result, Waterford now offers traditional loan products including commercial, commercial real estate, small business, and home mortgage loans from its Toledo and Perrysburg offices and a loan production office located outside the AA in Bryan, Ohio. Despite the

expansion of mortgage lending program, the bank's primary focus continues to be on small- and medium-sized businesses. The majority of deposit accounts at the bank, both by number and dollar amount, are business-related accounts. Specifically, 71.25 percent of deposits by dollar amount, and 58.66 percent of deposit accounts by number, are business-related accounts. Furthermore, commercial loans are still the bank's primary lending focus, and represent a significant majority of the bank's loan portfolio. As of December 31, 2013, 86 percent of the bank's loan portfolio was commercial and commercial real estate loans, 13 percent was residential mortgage loans, and less than one percent was consumer installment, farm, or other loans. Waterford also sells first-lien residential mortgage loans that it originates to secondary market investors, and does not retain mortgage servicing rights for the loans that it sells.

Waterford's business-related products and services include checking and savings accounts, business money market accounts, interest-only lawyer's trust accounts (IOLTAs), cash sweep services, cash management services, and remote deposit capture. The bank also offers online and telephone banking to both commercial and individual retail (consumer) customers. Consumer deposit-related products and services include checking and savings accounts, money market accounts, certificates of deposit, individual retirement accounts, and overdraft protection.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of the communities that it serves. Waterford received a rating of "Needs to Improve" as a result of its previous CRA evaluation, dated August 15, 2011.

Description of Assessment Area

Waterford's AA contains 136 census tracts, including all of the census tracts in Lucas County and nine census tracts in Wood County. Of the 136 tracts, 27 are designated low-income, 30 are moderate-income, 49 are middle-income, and 30 are upper-income. Excluding two moderate-income tracts, all of the remaining low- and moderate-income (LMI) tracts in the AA are located in Lucas County. Lucas and Wood Counties are both part of the Toledo, Ohio MSA. The AA meets the requirements of the CRA, consists of contiguous geographies, and does not arbitrarily exclude LMI areas. Table 1 highlights demographic information of the AA.

Table 1 - Demographic Information for Assessment Area					
Demographic Characteristics	#	% Low Income	% Moderate Income	% Middle Income	% Upper Income
Geographies (Census Tracts)	136	19.85	22.06	36.03	22.06
Population by Geography	485,403	11.85	19.68	39.20	29.27
Family Distribution by Income Level	122,478	23.52	17.32	19.99	39.17
Owner-Occupied Housing by Geography	129,443	7.28	16.58	41.84	34.30
Rental Housing by Geography	67,519	20.74	26.56	37.23	15.47
Vacant Households	25,034	25.16	29.42	31.05	14.37
Occupied Households Below Poverty	32,990	45.21	25.41	11.90	5.57
Businesses by Geography	35,361	8.14	16.48	39.22	36.16
FFIEC estimated Median Family Income = \$57,100		Unemployment Rate (December 31, 2013)			
Median Housing Value = \$124,521		United States = 7.4%			
Families Below the Poverty Level = 12.97%		State of Ohio = 7.3%			
Households Below the Poverty Level = 16.75%		Lucas County = 7.4%			
		Wood County = 6.3%			

Source: 2010 U.S. Census; 2013 Business Demographic Data

The bank has better opportunities for both commercial and mortgage lending in the middle- and upper-income census tracts within its AA. As shown in Table 1, over 76 percent of the owner-occupied housing units in the AA are within middle- and upper-income census tracts. Conversely, the greatest percentages of rental and vacant households are within low- and moderate-income tracts. Furthermore, the households that are considered to be below poverty are primarily located within the low- and moderate-income census tracts of the AA. Living below poverty creates a barrier for home ownership, making it especially difficult for this segment of the low-income population to afford and maintain a home. Most businesses, regardless of revenue level, are also located in middle- and upper-income tracts.

Competition from other financial institutions in the AA continues to be strong, particularly in the downtown Toledo market. Financial institutions in the AA range from local community banks to large regional and national companies. According to the June 30, 2013, FDIC deposit market share report, there are 20 insured depository institutions operating 161 offices within the two-county area. Waterford is one of the smaller institutions, with only two branch offices, and ranks seventh in deposit share with 4.70 percent of the market. The top five institutions in aggregate have 79.37 percent of the deposit market share. According to 2013 peer mortgage aggregate data, there were 227 lenders originating or purchasing mortgage loans within the AA. The top ten

lenders included eight large banks including Fifth Third Bank and its mortgage company, Huntington, Wells Fargo, PNC, Chase, and Citibank, and two non-bank mortgage lenders. The top ten lenders within the AA originated or purchased 57.21 percent of the mortgage loans during that year. Furthermore, the top five lenders originated or purchased approximately 49.23 of home mortgage loans within the low- and moderate-income census tracts of the AA. For home purchase and home refinance loans in low- and moderate-income CTs in the AA, Waterford ranked 21st out of 100 lenders, with 1.02 percent market share in 2012, and 22nd out of 98 lenders with 0.69 percent market share in 2013. Based on 2013 peer small business data, considerably fewer lenders (58) reported originating business loans in the AA.

The economic condition of the AA has been challenging since the last recession, with high unemployment rates and a decreasing population. As such, according to Moody's Analytics, the economic recovery of the AA is expected to continue for the next several years. The AA unemployment rates for 2012 to 2013 improved, and were comparable to the unemployment rates for both the United States and the State of Ohio at 7.4 and 7.3 percent respectively. Economic improvement in the AA is due to growth in manufacturing and increased household spending. Manufacturing, education, business services, and health services provide for a majority of the employment opportunities in the AA. Major employers in the AA include ProMedica Health Systems, The University of Toledo, Mercy Health Partners, Bowling Green State University, and Kroger Incorporated.

Community Contact

We conducted two community contacts for the purpose of determining credit and CD needs in the bank's AA. Both contacts' primary business focus was affordable housing. Based on our community contacts' information, there have been opportunities to make qualifying CD loans and investments, as well as to provide CD services, within the AA. However, competition for involvement in CD activities is high due to a large number of financial institutions operating in the AA. The contacts indicated that the primary needs of the AA include providing funds for programs such as foreclosure prevention, low- and moderate-income borrower access to credit, and home financing. Other needs within the AA include funding for homeownership counselors, as well as community organizations and banks partnering to provide energy efficient homes and financing. One of the community contacts stated that Waterford had recently met with them regarding CD opportunities. The contact referred Waterford to another economic development agency for possible investment into one of their programs.

Conclusions with Respect to Performance Tests

LENDING TEST

Waterford's record of lending within the AAs meets the standard for satisfactory performance.

Loan-to-Deposit Ratio

Waterford's average LTD ratio is reasonable. We evaluated the bank's average LTD ratio for the quarterly periods between September 30, 2011, and December 31, 2013. The bank's average LTD ratio during this period was 76.67 percent, with quarterly ratios ranging from a low of 76.27 percent to a high of 81.84 percent. There was one similarly situated institution within the AA, and its average LTD ratio was 85.57 percent.

Lending in Assessment Area

Waterford's record of lending within its AA meets the standard for satisfactory performance. The bank originated a majority of its small loans to businesses (*business loans totaling \$1 million or less*) and home mortgage loans inside its AA. As shown in Table 2, Waterford originated 77.28 percent of the number and 74.17 percent of the dollar amount of small loans to businesses inside the AA, and 75.24 percent of the number and 76.40 percent of the dollar amount of home mortgage loans inside the AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Loans to Businesses	415	77.28	122	22.72	537	124,088	74.17	43,209	25.83	167,297
Home Mortgage	708	75.24	233	24.76	941	156,894	76.40	48,464	23.60	205,358
Totals	1,123	75.98	355	24.02	1,478	280,982	75.40	91,673	24.60	372,655

Source: Bank generated reports; HMDA data reported 2012 and 2013. Excludes business loans exceeding \$1 million.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, Waterford's record of lending to businesses of different sizes and borrowers of different incomes meets the standard for satisfactory performance.

In evaluating the bank's overall performance, we gave significant consideration to the performance context identified in the *Description of Institution* and *Description of Assessment Area* sections of this report. Specifically, we placed more weight on the bank's record of lending to businesses of different sizes, due to its emphasis on commercial/business lending and deposit services, the bank's relatively recent entrance into the mortgage market in 2011, its limited branch presence, and the strong competition for mortgage loans in the marketplace (including competition from significantly larger institutions). For home mortgage lending, we also placed more weight on home purchase lending compared to home refinance lending because home purchase loans account for 66 percent of the home mortgage loans originated or purchased by the bank during the period of evaluation. We also gave consideration to the number and percentage of families in the AA that live below the poverty level, and the barriers that this may have on home ownership. As shown in Table 1, the percentage of the population living below the poverty level is 12.97 percent. Given the median home value of \$124,521, it would be difficult for this segment of the low-income

population to afford and maintain a home. As a result, this impacts a financial institution's opportunity to lend to the low-income population of the AA.

Small Loans to Businesses

Waterford's distribution of small loans to businesses reflects reasonable penetration among businesses of different sizes. As shown in Table 3, the bank's percentage of small loans to businesses in the AA is near the percentage of area non-farm businesses having gross annual revenues less than or equal to \$1 million. Though the bank's activity is somewhat lower than business demographics, it represents reasonable penetration given the level of competition and the economic conditions within the AA. Furthermore, the bank's percentage of small loans to businesses exceeds peer bank percentages for both the number and dollar amount of loans originated or purchased. Specifically, for 2012 and 2013, the peer bank average was 36.69 percent for number of loans originated and 32.89 percent for total dollar amount of loans to businesses with revenues less than or equal to \$1 million.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.41	5.55	25.04	100.00
% of Bank Loans in AA by #	50.36	37.83	11.81	100.00
% of Bank Loans in AA by \$	50.99	39.91	9.10	100.00

Source: 2012 and 2013 bank generated reports; Dun and Bradstreet data.

Home Mortgage Loans

Despite mitigating factors outlined in the performance context discussed above, as well as 2012 and 2013 peer aggregate home mortgage lending performance, Waterford's distribution of home mortgage loans reflects poor penetration to borrowers of different income. As shown in Table 4, Waterford's percentage of loans to low-income borrowers is significantly below the percentage of low-income families in the assessment area. However, the bank's percentage of loans to moderate-income families is near the percentage of moderate-income families in the assessment area, particularly when the fact that the bank makes significantly more home purchase loans than home refinance loans is taken into account. The number and percentage of families in the AA that live below the poverty level also has a significant negative impact on the bank's ability to lend to low-income borrowers, and peer banks also have difficulty lending to low- and moderate-income borrowers in the AA. For home purchase loans, peer aggregate percentages of loans to low- and moderate-income borrowers totaled 9.36 and 21.18 percent, respectively. For home refinance loans, peer aggregate percentages of loans to low- and moderate-income borrowers totaled 5.91 and 16.35 percent, respectively. Overall, in 2012 and 2013, the total peer aggregate percentages of home purchase and home refinance loans to low- and moderate income borrowers were 7.10 and 18.00 percent, respectively. The total percentage of peer mortgage loans reported without income totaled 11.30 percent.

Borrower Income Level / Loan Type	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	23.52	2.83	17.32	15.90	19.99	22.66	39.17	58.61
Home Refinancing	23.52	1.74	17.32	7.83	19.99	12.17	39.17	78.26
TOTAL	23.52	2.43	17.32	13.00	19.99	18.86	39.17	64.14

Source: 2012 and 2013 HMDA data; 2010 U.S. Census data. Total percentage of loans reported without income totaled 1.57 percent in 2012 and 2013.

Geographic Distribution of Loans

Overall, Waterford's overall geographic distribution of loans meets the standard for satisfactory performance.

Similar to how we evaluated the bank's record of lending to businesses of different sizes and borrowers of different incomes, in evaluating its geographic distribution of loans we placed more weight on small loans to businesses given the bank's emphasis on commercial/business lending and the factors identified within the *Description of Institution* and *Description of Assessment Area* sections of this report that negatively impact the bank's ability to originate mortgage loans in low- and moderate-income census tracts. These factors include the bank's relatively recent entrance into the mortgage market in 2011, its limited branch presence, strong competition for mortgage loans in the marketplace (including competition from significantly larger institutions), the low percentages of owner-occupied housing in low- and moderate-income census tracts in the AA, and the high percentages of vacant housing units in low- and moderate-income tracts. We also took 2012 and 2013 peer mortgage aggregate performance into consideration.

Small Loans to Businesses

Waterford's distribution of business loans among geographies of different income levels reflects a reasonable dispersion throughout the AA. As shown in Table 5, the percentages of business loans in low-income and moderate-income census tracts is less than the percentages of the AA's non-farm businesses located in those tracts. However, Waterford's lending percentages are consistent with peer bank small business lending. As shown in Table 1, most businesses are located in middle- and upper-income census tracts. As a result, and given the level of competition in the AA, Waterford has a better opportunity to lend within the middle- and upper-income tracts. Comparing Waterford's performance to peer bank small business lending percentages, peer banks also originated or purchased most of their loans in middle- or upper-income tracts. Specifically, during 2012 and 2013, peer bank small loans to businesses lending percentages in low- and moderate-income census tracts totaled 7.28 percent and 13.73 percent, respectively. For middle- and upper-income tracts, peer bank small loans to businesses lending percentages totaled 38.45 and 40.54 percent, respectively.

Table 5 - Geographic Distribution of Small Loans to Businesses in Assessment Area								
Census Tract Income Level / Loan Type	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Small Loans to Businesses	8.14	4.82	16.48	12.53	39.22	29.64	36.16	53.01

Source: 2012 and 2013 Bank generated reports; 2010 U.S. Census data.

Home Mortgage Loans

Waterford's distribution of home mortgage loans among geographies of different income levels reflects a poor dispersion throughout the AA. As shown in Table 6, the bank's percentage of home purchase and home refinance loans originated or purchased in low- or moderate-income census tracts of the AA is significantly less than the percentage of owner-occupied housing in these tracts. However, the bank's performance has been significantly impacted by the factors discussed above. Despite its limited volume of home mortgage lending in low- and moderate-income tracts in its AA, Waterford ranked 21st out of 100 lenders for home purchase and home refinance loans within low- and moderate-income tracts in the AA in 2012, and 22nd out of 98 lenders in 2013. Peer banks also have difficulty lending in the low- and moderate-income tracts, and their percentage of home mortgage loans within the low- and moderate-income tracts of the AA is also significantly below the percentage of owner occupied housing. The total peer aggregate percentages of home purchase and home refinance loans lending percentages in low- and moderate- income tracts were 1.42 percent and 8.81 percent, respectively. This demonstrates that the bank's lending is consistent with the lending patterns of peer mortgage lenders within the AA. Furthermore, this also demonstrates the effect of competition as well as limited owner-occupied housing has on a lender's ability to originate home purchase and home refinance loans within the low- and moderate-income census tracts of the AA.

Table 6 - Geographic Distribution of Residential Real Estate Loans in Assessment Area								
Census Tract Income Level / Loan type	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
Home Purchase	7.28	.43	16.58	3.46	41.84	27.00	34.30	69.11
Home Refinance	7.28	0.00	16.58	2.53	41.84	14.53	34.30	83.12

Source: 2012 and 2013 HMDA data; 2010 U.S. Census data.

Responses to Complaints

Waterford has not received any written complaints during the period of review that are related to its performance in meeting the credit and deposit needs of the AA.

COMMUNITY DEVELOPMENT TEST

Waterford's CD performance reflects adequate responsiveness in meeting the CD lending, investments, and service needs of its AA.

Number and Amount of Community Development Loans

Waterford originated four qualifying CD loans totaling \$2.7 million during the evaluation period. The four loans were to organizations with the specific mission of providing affordable housing to low- and moderate-income (LMI) individuals. Two of the organizations use the funds for the construction or rehabilitation of homes for LMI individuals. The other two organizations use the funds to purchase housing or provide mortgages to LMI individuals. In one instance, Waterford provided a qualifying CD loan with reduced fees and interest rate. The organization provided a letter stating the reduced fees and rate will save them approximately \$80,000 over the term of the loan, and that the savings will be used to further the organization's mission of serving LMI individuals and areas of Lucas County.

Number and Amount of Qualified Investments

Waterford was responsive to the CD needs of the AA by making qualified investments totaling \$1.3 million during the evaluation period. Investments made during the evaluation period are detailed below:

- The bank funded two investments totaling \$1 million in Low-Income Housing Tax Credits (LIHTCs), which benefitted the AA. The investments in the LIHTCs helped fund approximately 29 projects located in Ohio, two of which are located within the Toledo, Ohio MSA. The purpose of the projects was to provide affordable housing units benefiting low- and moderate-income geographies or individuals.
- The bank invested \$290,000 in deposits in two Community Development Financial Institutions (CDFIs) located within its AA. The CDFIs are designated institutions that meet the credit needs of LMI individuals and communities that they serve.
- The bank provided three qualifying CD in-kind donations totaling \$15,502 to local community organizations during the evaluation period. The donations benefitted CD initiatives for affordable housing, social services for low- and moderate-income individuals, and economic revitalization.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, Waterford's employees were involved with organizations or programs that provide financial services or education to low- and moderate-income individuals or families. In addition, bank employees also served on boards or advisory

committees of organizations that provide services to low- and moderate-income individuals or families. Some examples of community development services are detailed below.

- One employee sits on the board of a scholarship fund. The organization is committed to offering educational choices to low-income families through privately funded scholarships.
- Three employees serve on boards of local organizations that support economic development. The purpose of these organizations is to promote the start-up and development of new businesses and assist employers with their hiring needs.
- Two employees are board members, and another employee is the executive secretary, of an organization providing outpatient medical services for families regardless of their ability to pay. The organization also provide therapeutic, educational, and support services.
- Three employees provided financial literacy education to low- and moderate-income families and students.
- Two employees serve on boards of organizations that provide social services such as family support, shelter and emergency services, childcare services, and affordable housing to low- and moderate-income families.

Fair Lending or Other Illegal Credit Practices Review

The OCC does not have public information regarding non-compliance with statutes and regulations prohibiting discriminatory or other illegal credit practices with respect to this institution.