

PUBLIC DISCLOSURE

September 3, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**County Bank
33009**

**4299 Highway One
Rehoboth Beach, Delaware 19971**

**Federal Deposit Insurance Corporation
20 Exchange Place
New York, New York 10005**

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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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 **County Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 3, 2002**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

County Bank has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The bank's core business strategy within its assessment area is commercial (small business) lending, the majority of which is secured by residential property. The bank originates purchase-money residential mortgages through the use of brokers.

While small business lending remains the bank's primary business focus, County Bank is actively involved in payday lending, primarily outside its assessment area. The FDIC considered the bank's payday lending activities in accordance with outstanding guidance in assigning its CRA rating. The rating assigned is based primarily on the bank's small business and home mortgage lending activities within its assessment area. The bank's community development lending activities were also considered. Based on a review of these small business and home mortgage lending products, as well as the bank's community development lending activities, County Bank has satisfactorily met the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following factors were considered when arriving at the bank's overall CRA rating:

- A reasonable loan-to-deposit ratio over the review period.
- A majority of small business and home mortgage loans originated within its assessment area.
- An adequate distribution of credit among businesses of different sizes and borrowers of various incomes.
- A good use of lending-related activities such as community development loans.
- No violations of the substantive provisions of the antidiscrimination laws and regulations.

DESCRIPTION OF INSTITUTION

County Bank is a state-chartered, independent financial institution located on Highway One, Rehoboth Beach, Sussex County, Delaware. The bank began operations in July 1990 and has since grown to eight banking offices. Its newest branch is located in Lewes, Delaware. County Bank operates primarily in Sussex County where the main office and six branch offices are located. An additional branch is located in Kent County, near the Sussex County border.

According to the June 30, 2002 Report of Income and Condition, County Bank had total assets of \$216 million. Total deposits were \$197 million. Loans totaled \$166 million; 23 percent of the loan portfolio is categorized as commercial construction and land development, 23 percent is one-to-four-family, and about 30 percent is commercial (real estate secured). An additional 17 percent of the loan portfolio is categorized as commercial and industrial (non-real estate secured); the remainder of the portfolio is comprised of consumer loans.

The bank provides a full range of credit products. However, the bank's core business strategy within its assessment area is commercial (small business) lending. The bank originates purchase-money residential mortgages through the use of brokers. The majority of loans residing in the "one-to-four family residential properties" category are loans collateralized by a primary residence but made for a small business purpose.

While small business lending remains the bank's primary business focus, County Bank, as noted earlier, is actively involved in payday lending. The bank has business arrangements with 23 out-of-state payday lenders who originate, service, and collect on payday loans as a broker and agent of the bank. This lending is done on a nationwide basis. County Bank underwrites and funds the loan to the borrower; however, the vast majority of the loans are sold back to the originators at a premium within the same day.

The FDIC and County Bank received comment letters regarding the institution's involvement with payday lending. Those comments were considered in evaluating the bank's CRA performance. In addition, the bank's payday lending operations were evaluated using the FDIC's Guidelines for Payday Lending. Based on this evaluation, the bank's payday lending operations did not adversely affect its CRA performance. Community contacts indicate that the needs of the community lie in strengthening the infrastructure of Sussex County, finding ways to make housing affordable, and supporting small businesses. County Bank has satisfactorily met these needs through its loan product offerings and community development activities. County Bank participates in affordable housing and economic development projects sponsored by the Delaware Community Investment Corporation (DCIC) in an effort to better serve its assessment area. These efforts are discussed later in the evaluation.

The bank is profitable as it recorded a net income of \$2 million as of December 31, 2001. There are no financial or legal impediments or supervisory restrictions present that would prohibit the bank from meeting the credit needs of the community.

County Bank received a "Satisfactory" rating at its last Community Reinvestment Act (CRA) evaluation dated May 19, 1998.

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which the FDIC evaluates the bank's record of helping to meet the credit needs of its community. The Federal Deposit Insurance Corporation (FDIC) evaluates the institution's CRA performance based on the defined assessment area. County Bank has defined its assessment area as Sussex County, Delaware, which is not located in a metropolitan statistical area (MSA), and three census tracts located in Kent County, Delaware, part of the Dover MSA 2190. Sussex County is the southernmost county in Delaware and is largely rural with the exception of the resort areas along the Atlantic Coast.

The bank's assessment area, as currently defined, is reasonable as it contains only whole geographies, includes the bank's main office and branch facilities, and does not arbitrarily exclude low- and moderate-income geographies. The assessment area includes 27 census tracts, of which 20 are middle-income, 2 are upper-income, and 5 unpopulated tracts with no income assigned. The unpopulated area consists of the Lewes-Rehoboth Canal and the marsh area surrounding the canal. Income categories were derived utilizing the HUD-adjusted median family income for the non-MSA portion of Delaware. Census tracts are broken down into four income categories: low, moderate, middle, and upper. Income categories for census tracts are defined as tracts having median family incomes within the following percentages of the area's median family income:

Low-income	Less than 50 percent
Moderate-income	At least 50 percent and less than 80 percent
Middle-income	At least 80 percent and less than 120 percent
Upper-income	120 percent and greater

The median family income utilized for this area was \$44,600 for 2000, \$46,900 for 2001, and \$49,600 for 2002.

According to the 1990 census, the total population of the assessment area is 118,817. There are 33,617 families. Families, along with owner-occupied housing units, represent consumer lending opportunities for the bank. Of the 33,617 families, 5,949 (18 percent) are low-income, 6,495 (19 percent) are moderate-income, 8,269 (25 percent) are middle-income, and 12,904 (38 percent) are upper-income. Additionally, there are 76,701 housing units of which 35,768 (47 percent) are owner-occupied, 10,141 (13 percent) are rented, and 30,792 (40 percent) are vacant. Bank management stated that the high percentage of vacant homes is due to high numbers of vacation homes in the resort area.

According to the U.S. Census Bureau, the population of Sussex County as of 2000 was 156,638, a 24 percent increase over that reported in 1990, and housing units reported a 17 percent increase.

There are many opportunities for lending to small businesses within the bank's assessment area. According to Dun and Bradstreet, 7,834 businesses within the assessment area have revenues less than \$1 million each. These "small" businesses equal about 80 percent of all businesses in

the assessment area. Additionally, 7,126, or 91 percent, of the small businesses employ less than 10 people.

The unemployment rate for Sussex County as reported by the Bureau of Labor Statistics was somewhat lower than the state and national rates. As of September 2002, the unemployment rate for the county was 3.2 percent. The unemployment rates for Delaware and the United States were at 4.0 percent and 5.7 percent for the same period, respectively. The largest employers in the area include DuPont in Seaford, Delaware and Conagra Poultry Company in Milford, Delaware, both with over 1,000 employees.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation of the institution's lending performance is primarily based upon a review of small business loans originated in 2000, 2001, and through June 30, 2002. A small business loan is a loan with an original amount of \$1 million or less categorized by the bank as either secured by non-farm, non-residential property or as a commercial and industrial loan. As a "small bank" for CRA purposes, County Bank is not required to report its small business loan activity; therefore, a sample of this loan product was taken for each year. The bank's CRA performance is also based on its home mortgage lending activity in 2000, 2001, and through June 30, 2002, as reported under the Home Mortgage Disclosure Act (HMDA). However, since County Bank's main office is located in a non-MSA area and it meets the definition of a "small bank" for CRA, the bank is not required to maintain location information on those loans originated in a non-MSA area. Therefore, only a sample of the bank's HMDA loans were evaluated.

Loan-to-Deposit Ratio

County Bank's average net loan-to-deposit ratio indicates a reasonable responsiveness to area credit needs, given its capacity and ability to lend. The bank's average net loan-to-deposit ratio, based on 17 quarters since the 1998 CRA evaluation, is approximately 86 percent. This ratio was calculated by averaging the net loan-to-deposit ratios obtained from the bank's quarterly Call Reports.

There were no comparable institutions noted that engage in the same product line and operate within the same market area as County Bank. The FDIC Quarterly Banking Profile for the second quarter of 2002 reported that the average net loan-to-deposit ratio for all institutions with total assets between \$100 million and \$1 billion is 85 percent. The average loan-to-deposit ratio for institutions operating within the state of Delaware is 80 percent.

Lending in Assessment Area

The bank's performance under this category is satisfactory as the bank originates a majority of its home mortgage and small business loans within its assessment area. The following table provides a more detailed look at the bank's performance.

<i>Table 1 – Distribution of Loans Inside and Outside of the Assessment Area*</i>										
<i>Loan Category or Type</i>	<i>Number of Loans</i>					<i>Dollars in Loans (000s)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
<i>Home Mortgage</i>										
2000	25	89%	3	11%	28	\$1,781	92%	\$153	8%	\$1,934
2001	25	83%	5	17%	30	\$650	68%	\$307	32%	\$957
YTD 2002	12	92%	1	8%	13	\$789	89%	\$100	11%	\$889
Subtotal	62	87%	9	13%	71	\$3,220	85%	\$560	15%	\$3,780
<i>Small Business</i>										
2000	20	95%	1	5%	21	\$1,379	69%	\$624	31%	\$2,003
2001	22	81%	5	19%	27	\$3,342	84%	\$625	16%	\$3,967
YTD 2002	26	96%	1	4%	27	\$3,201	90%	\$340	10%	\$3,541
Subtotal	68	91%	7	9%	75	\$7,922	83%	\$1,589	17%	\$9,511
Total	130	89%	16	11%	146	\$11,142	84%	\$2,149	16%	\$13,291

Source: HMDA Loan Application Register (2000-6/30/02), and Small Business Loan Trial Balance (2000-6/30/02).

*The number and dollar amount of loans shown above represent a sample of the bank's lending, and not the total loans originated for each year. See "Conclusions with Respect to Performance Criteria" for additional information.

As the table indicates, during the review period the bank originated 89 percent of its loans by number and 84 percent of its loans by dollar volume within the assessment area.

The total dollar amount of home mortgage lending for 2000 is high compared to the other years in the evaluation period. The higher amount is due to three large dollar loans originated within the bank's assessment area during that year. A similar anomaly occurs in 2002, with the origination of a \$350,000 home improvement loan. Other than a few large dollar loans, the bank generally originates home improvement and refinance loans for less than \$100,000.

Small business lending by dollar volume has increased each year during the evaluation period, and total small business lending during 2002, when annualized, may surpass \$6 million for the year. The increases can be expected as the bank continues to focus its core business on this type of loan product.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's lending to borrowers of different incomes and businesses of different sizes is reasonable. This conclusion is based on the review of the bank's small business lending and home mortgage lending inside its assessment area. The following tables and discussion provides an in-depth look at the bank's performance.

Small Business Loans

As Table 2 shows, 74 percent of the bank's small business loans were to small businesses (defined as those businesses with gross annual revenues equal to or less than \$1 million). The table indicates that the bank has been successful in supporting the smaller businesses within its assessment area and that lending has been stable over the period reviewed.

<i>Table 2 - Distribution of Small Business Loans by Gross Annual Revenues of Business*</i>								
<i>Gross Annual Revenues (000s)</i>	<i>2000</i>		<i>2001</i>		<i>YTD 2002</i>		<i>Total</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
<i>≤ \$1,000</i>	15	75%	16	73%	19	73%	50	74%
<i>> \$1,000</i>	2	10%	3	14%	4	15%	9	13%
<i>NA</i>	3	15%	3	14%	3	12%	9	13%
<i>Total*</i>	<i>20</i>	<i>100</i>	<i>22</i>	<i>100</i>	<i>26</i>	<i>100</i>	<i>68</i>	<i>100</i>

Source: Small Business Loan trial balance (2000-6/30/02). Totals may not equal 100 due to rounding.

**The number and dollar amount of loans shown above represent a sample of the bank's lending, and not the total loans originated for each year. See "Conclusions with Respect to Performance Criteria" for additional information.*

Table 3 on the following page shows a breakdown of the bank's small business lending by loan size. The size of the loan is a likely indication of the size of the business; that is, the smaller the loan, the smaller the business. During the review period, 72 percent of the bank's small business loans were in amounts of \$100,000 and less.

Table 3 - Distribution of Small Business Loans by Loan Size*										
Loan Size (000s)	Aggregate Lending Data (% of #)		2000		2001		YTD 2002		Total	
	2000	2001	#	%	#	%	#	%	#	%
≤ \$100	92%	89%	17	85%	16	73%	16	62%	49	72%
> \$100 ≤ \$250	5%	6%	2	10%	2	9%	4	15%	8	12%
> \$250 ≤ \$1,000	3%	5%	1	5%	4	18%	6	23%	11	16%
Total*	100	100	20	100	22	100	26	100	68	100

Source: Small Business Loan Trial Balance (2000-6/3/02), and CRA Aggregate Data. Totals may not equal 100 due to rounding. *The number and dollar amount of loans shown above represent a sample of the bank's lending, and not the total loans originated for each year. See "Conclusions with Respect to Performance Criteria" for additional information.

The bank's performance, as shown in Table 3, is adequate. Aggregate information is offered as an indicator of how well other institutions are performing in the bank's assessment area. However, current CRA regulations only require that institutions with total assets of \$250 million or more report small business loan data. Based on its asset size, County Bank is not required to report small business loan data. The aggregate data shown represents the performance of all "large" institutions including branches of large regional banks; therefore, County Bank is not expected to achieve the same level of performance.

The distribution of the dollar volume of the small business loans by size reflects similar results.

Home Mortgage (HMDA Loans)

Table 4 shows the bank's performance of lending to home mortgage loan borrowers of different incomes throughout its assessment area. To assess its performance, the bank's home mortgage lending was compared with the percentage of families within its assessment area and the performance of all other lenders (aggregate). Aggregate data for 2002 was not available as of the date of the evaluation.

Table 4 - Distribution of HMDA Loans by Borrower Income*											
Borrower Income Level	% of Total Families	Aggregate Lending Data (% of #)		2000		2001		YTD 2002		Total	
		2000	2001	#	%	#	%	#	%	#	%
Low	18%	7%	4%	2	8%	5	20%	2	17%	9	15%
Moderate	19%	16%	13%	3	12%	3	12%	4	33%	10	16%
Middle	25%	22%	20%	6	24%	7	28%	0	0%	13	21%
Upper	38%	53%	57%	14	56%	8	32%	5	42%	27	43%
0/ NA Income	0	2%	6%	0	0	2	8	1	8%	3	5%
Total*	100	100	100	25	100	25	100	12	100	62	100

Source: U.S. Census, HMDA LAR (2000-6/30/02), and HMDA Aggregate.

*The number and dollar amount of loans shown above represent a sample of the bank's lending, and not the total loans originated for each year. See "Conclusions with Respect to Performance Criteria" for additional information.

As noted in the table, the bank's lending to low- and moderate-income borrowers compares favorably to that of other lenders; however, the bank's performance is somewhat skewed by the relatively small number of loans in the sample. During the evaluation period, County Bank originated 15 percent of its home mortgage loans to low-income borrowers compared to 4 percent by all lenders in 2001. However, the bank's performance is slightly lower than the 18 percent of low-income families. The disparity can be explained by the lack of affordability of housing in an area that is considered a "vacation area."

The bank's proportion of lending to moderate-income borrowers parallels that of other lenders and is more in line with the percent of households within the moderate-income category.

The distribution of the dollar volume of these loans reflects similar results.

Geographic Distribution of Loans

The bank's geographic distribution performance is reasonable. This conclusion is based on the review of the bank's small business and home mortgage lending inside the assessment area. The following tables and discussion provide a more in-depth look at the bank's performance.

Small Business Loans

As noted in Table 5, the geographic distribution of small business loans is comparable to aggregate lending data. Overall, 87 percent of small business loans, compared to 90 percent for aggregate, were originated in middle-income census tracts.

<i>Table 5 - Distribution of Small Business Loans by Income Category of the Census Tract*</i>										
<i>Census Tract Income Level</i>	<i>Aggregate Lending Data (% of #)</i>		<i>2000</i>		<i>2001</i>		<i>YTD 2002</i>		<i>Total</i>	
	<i>2000</i>	<i>2001*</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
<i>Low</i>	0	0	0	0	0	0	0	0	0	0
<i>Moderate</i>	0	0	0	0	0	0	0	0	0	0
<i>Middle</i>	90%	90%	18	90%	20	91%	21	81%	59	87%
<i>Upper</i>	10%	10%	2	10%	2	9%	5	19%	9	13%
<i>Total</i>	<i>100</i>	<i>100</i>	<i>20</i>	<i>100</i>	<i>22</i>	<i>100</i>	<i>26</i>	<i>100</i>	<i>68</i>	<i>100</i>

Source: Small Business Loan Trial Balance (2000-6/30/02) and CRA Aggregate Data.

*The number and dollar amount of loans shown above represent a sample of the bank's lending, and not the total loans originated for each year. See "Conclusions with Respect to Performance Criteria" for additional information.

As previously noted, aggregate data is offered to provide a look at how other lenders performed in the assessment area; however, the data is only from "large" reporting institutions. The expectations of a small bank may be different than those of a large bank; however it is noteworthy that County Bank's data is similar to that of other larger lenders. A review of the geographic distribution of small business loans by dollar volume reflects similar results.

Home Mortgage (HMDA) Loans

The bank's home mortgage lending is detailed in Table 6. The bank's lack of lending in the low- and moderate-income census tracts is due to the lack of such tracts in the assessment area. As noted under Description of the Assessment Area, the area is comprised of middle- and upper-income census tracts only.

Table 6 – Distribution of HMDA Loans by Income Category of the Census Tract*											
Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)		2000		2001		YTD 2002		Total	
		2000	2001	#	%	#	%	#	%	#	%
Low	0	0	0	0	0	0	0	0	0	0	0
Moderate	0	0	0	0	0	0	0	0	0	0	0
Middle	98%	91%	91%	23	92%	24	96%	12	100%	59	95%
Upper	2%	8%	9%	2	8%	1	4%	0	0	3	5%
\$0/NA Income	0	1%	0	0	0	0	0	0	0	0	0
Total*	100	100	100	25	100	25	100	12	100	62	100

Source: U.S. Census, HMDA LAR (2000-6/30/02), and HMDA Aggregate Data.

*The number and dollar amount of loans shown above represent a sample of the bank's lending, and not the total loans originated for each year. See "Conclusions with Respect to Performance Criteria" for additional information.

County Bank's home mortgage originations compare favorably to aggregate lenders as noted in the table above. A review by dollar volume reflects similar results.

Lending-Related Activities

Since 1996, County Bank has been an active participant in community development loans originated through the Delaware Community Investment Corporation (DCIC). DCIC, headquartered in Wilmington, Delaware, is a community development corporation, which provides financing for community revitalization projects across the state.

Despite heavy competition for DCIC-sponsored loans from several, much larger, local financial institutions, County Bank is involved in 7 of DCIC's 11 outstanding loan pools. Those pools include (County Bank's commitment is shown in parentheses) Equity Fund III (\$500,000), Equity Fund IV (\$1.0 million), Equity Fund V (\$1.0 million), Housing Loan Fund I (\$150,000), Housing Loan Fund II (\$150,000), Community Investment Loan Fund (\$250,000), and Urban Renewal Loan Fund I (\$250,000). The Equity Funds use pooled capital to invest in affordable rental housing developments that have been awarded tax credits. The Housing Loan Funds provide long-term financing for affordable housing developments. The Community Investment Loan Fund provides long-term financing for real estate projects located in areas targeted for redevelopment. The Urban Renewal Loan Fund provides short-term financing (36 months) for real estate acquisition and/or site control for projects located in areas targeted for urban renewal

and revitalization. During the period covered by this evaluation, County Bank has extended 19 loans totaling \$453,476 to DCIC-sponsored projects.

Many of the DCIC projects are located in northern Delaware, specifically the Wilmington area where a strong demand for community development initiatives exist. The following details some of the projects that County Bank has helped to finance through its participation with DCIC:

- Marshall Manor Apartments, Milford, Delaware – Milford Housing Development Corporation is the developer of this new construction complex. The development will provide 36 one-bedroom apartment units to seniors in Sussex County. All units will be affordable to persons at or below 50 percent of the state’s median income.
- Delaware State Bar Association – The bank assisted in the funding of this renovation project under its commitment to the Community Investment Loan Fund. The Delaware State Bar Association needed funds to renovate a historic Farmers Bank building located in an area of Wilmington targeted for revitalization by the state.
- Thomas A. Edison Charter School of Wilmington – This rehabilitation project is a non-profit organization that operates as a full service school for 1,300 students living within a five-mile radius of the school, the majority of who come from low- and moderate-income families.

Response to Complaints

County Bank’s response to complaints about its performance in meeting assessment area credit needs meets the standards for satisfactory performance. However, additional effort may have been warranted to more adequately satisfy the standards of this performance criterion.

A North Carolina-based consumer advocacy group provided the bank with written comments expressing concern over the “potentially abusive” nature of payday lending. The organization subsequently protested outside of the bank’s branch office in Georgetown, Delaware. In an effort to address and respond to their concerns, the bank’s president spoke verbally with the executive director of the aforementioned community group, and met with the organization during their protest at its Georgetown branch office. While technically meeting the requirements of this performance criterion, a written letter addressing the organizations concerns would have constituted a more effective response.

Compliance with Antidiscrimination Laws and Regulations

No violations of the substantive provisions of the antidiscrimination laws and regulations were noted. Fair lending is adequately addressed in the bank's policies.