

PUBLIC DISCLOSURE

November 6, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Delaware Sterling Bank & Trust Company
57896**

**630 Churchmans Road
Christiana, Delaware 19702**

Federal Deposit Insurance Corporation

**20 Exchange Place
New York, New York 10005**

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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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 Delaware Sterling Bank & Trust Company prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of November 6, 2006. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

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

Delaware Sterling Bank & Trust Company (DSB) demonstrates a Satisfactory record of helping to meet its assessment area's credit needs, including low- and moderate-income individuals and neighborhoods, in a manner consistent with its resources and capabilities. The factors supporting the bank's overall rating include the following findings:

- A good use of other lending-related activities such as community development loans and lending-related qualified investments.
- A substantial majority of loans (92 percent by number) within the assessment area.
- A reasonable distribution of loans by geography.
- A reasonable distribution of loans among businesses of different sizes.
- No evidence of CRA-related complaints.
- A reasonable net loan-to-deposit ratio. While the bank's net loan-to-deposit ratio averaged only 17 percent over the seven quarters since the bank opened, a steadily improving trend is noted. The current ratio (as of September 30, 2006) is 30 percent.

SCOPE OF EXAMINATION

The bank's performance was evaluated using Small Bank CRA procedures. This is the bank's first CRA Performance Evaluation. The conclusions in this CRA Performance Evaluation are based upon a review of all commercial loans originated by DSB in 2005 and 2006. Home mortgage, consumer, and agricultural loans were not considered as they do not constitute a significant portion of the bank's lending.

This evaluation considered the bank's lending-related activities in an effort to determine whether or not DSB is meeting the standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

DSB is a \$33 million, state-chartered financial institution located at 630 Churchmans Road in Christiana, Delaware. The bank was approved for Federal Deposit Insurance on December 23, 2004, and opened for business on January 3, 2005. DSB engages primarily in small business commercial lending, trust and asset management services, and private banking.

DSB is not physically located or operationally configured to conduct any significant retail business. DSB's main office is located on the second floor of a commercial office building. The bank employs seven individuals, including two that originate loans. DSB's initial focus is small business and high net worth opportunities, as they relate to the owners and families of the small business market. DSB also offers commercial support and mortgage origination services through affiliates of the bank's holding company. As the bank develops its portfolio of earning assets and becomes profitable, it plans to develop a traditional presence in the market, which may include full service retail branches.

DSB is a subsidiary of Sterling Financial Corporation, a \$3.1 billion multi-bank holding company headquartered in Lancaster, Pennsylvania. Sterling Financial Corporation is also the holding company for Bank of Hanover and Trust Company, Bank of Lancaster County, N.A., First National Bank of North East, and Pennsylvania State Bank.

As of September 30, 2006, DSB had \$33 million in total assets, \$8 million in total loans, and \$28 million in total deposits. The bank's net loan-to-deposit ratio was 30 percent. DSB's loan distribution is displayed in the table below.

Table 1 - Loan Distribution as of 9/30/2006		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction, land development, and other land loans	\$2,930	35%
1-4 Family Residential	\$2,364	28%
Secured by Nonfarm Nonresidential Properties	\$1,551	18%
Total Real Estate Loans	\$6,845	81%
Commercial and Industrial	\$1,552	18%
Other	\$18	<1%
Total Loans	\$8,415	100%

Source: Report of Condition

Real estate secures 81 percent of total loans. Commercial loans (consisting of the categories commercial and industrial loans and loans secured by nonfarm nonresidential properties) constitute the largest segment of the bank's loan portfolio at 36 percent. Loans secured by 1-4 family residential properties represent 28 percent of the loan portfolio. Although this would appear to indicate that DSB engages in traditional home mortgage lending, it should be noted that all of the loans that fall within this category were made to commercial customers for various purposes (e.g. real estate investment). The primary lending focus of this institution remains small business lending. DSB does not originate agricultural or consumer loans.

DSB does not have any legal or financial impediments that restrict its ability to meet the credit needs of the assessment area. However, as a new institution, DSB is not yet profitable. The institution had a net loss of \$562 thousand as of September 30, 2006.

DESCRIPTION OF ASSESSMENT AREA

DSB's assessment area (AA) consists of New Castle County, Delaware (MSA #48864) in its entirety, seven census tracts in Chester County, Pennsylvania (MSA #37964), and four census tracts in Delaware County, Pennsylvania (MSA #37964).

The bank's AA, as currently defined, is reasonable as it contains only whole geographies, includes the bank's one office, and does not arbitrarily exclude any low- and moderate- income areas.

Median Family Income

According to 2000 U.S. Census data, DSB's AA contains 138 census tracts: 10 are low-income, 23 are moderate-income, 64 are middle-income, and 40 are upper-income; income was not available for 1 tract. The bank's one office is located in a middle-income census tract in New Castle County, Delaware (MSA #48864). Wilmington, Delaware contains all of the AA's low-income census tracts and 8 of the 23 moderate-income census tracts.

Competition

DSB operates in a very competitive banking environment. The bank competes with local commercial banks, numerous regional and super-regional commercial banks, savings banks, savings and loan associations, finance companies, credit unions, and private lenders. There are comparatively few community banks with total assets of less than \$100 million.

Aggregate CRA data regarding market share was available only by county, rather than AA. In 2004, aggregate CRA data revealed that 178 lenders originated small business loans within the counties of DSB's designated AA. The top three lenders by number of loans originated included MBNA America (Delaware), N.A. (20 percent market share), Capital One, F.S.B. (17 percent market share), and Citibank USA, N.A. (14 percent market share). All of the top lenders, however, originated small business loans with an average loan size of \$5,000 or less. PNC Bank, N.A., although ranked 7th by number of loans originated, held a 3 percent market share with an average loan size of \$84,000. DSB's asset size precludes the bank from being a CRA reporter.

As of June 30, 2006, there were 32 financial institutions with 165 offices located in New Castle County. ING Bank, F.S.B. had the largest deposit share with 34 percent, while DSB had a deposit market share less than 1 percent. There were 25 financial institutions with 94 offices in the City of Wilmington, where the majority of low- and moderate-income are located. There is intense competition for community development activities in the AA and the larger

statewide area. As a result, each bank needs to be regularly and actively involved in the community to identify appropriate community development lending, investment, and service opportunities.

Business

Economic strengths in New Castle County include a high concentration of finance, insurance, and real estate industries, particularly banking, due in part to low business costs and the state's favorable tax structure. According to Dun and Bradstreet, the top employers in the county include MBNA Corporation (recently purchased by Bank of America), DuPont, and Christiana Care Health System.

Unemployment in Delaware has been consistently low. According to the Bureau of Labor and Statistics, the Delaware State unemployment (UE) rate was 3.7 percent in second quarter 2006, compared to 4.6 percent for the nation. The Bureau of Labor Statistics reported the second quarter 2006 UE rate for each county in the bank's AA as follows: New Castle (3.9 percent), Chester (3.4 percent), and Delaware (4.4 percent). New Castle County's rate is slightly higher than the Delaware State rate of 3.7 percent, while both Chester and Delaware Counties have UE rates lower than the Pennsylvania State rate of 4.6 percent.

According to 2005 Dun and Bradstreet data, 90 percent of businesses within the AA have revenues less than \$1 million, indicating a likely demand for loans to small businesses. Fourteen percent of the total businesses are located in low-income census tracts, while thirteen percent are located in moderate-income census tracts. As mentioned above, however, DSB competes with many financial institutions for small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation of the bank's lending performance is based upon the review of its entire universe of loans that were originated from January 3, 2005 through November 6, 2006. The review consisted of 26 commercial-purpose loans totaling \$14.9 million.

Loan-To-Deposit Ratio

DSB's net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The average net loan-to-deposit ratio was 17 percent for the seven quarters since the bank opened on January 3, 2005. DSB's net loan-to-deposit ratio ranged from a low of 6 percent to a high of 39 percent. The bank's September 30, 2006 net loan-to-deposit ratio was 30 percent with an increasing trend for the past four quarters.

Although DSB’s net loan-to-deposit ratio is low, there are compensating factors. As a new, or “de novo” institution, low lending volumes are typical as the bank has yet to establish name recognition within its community. DSB increased its loan volume from 8 loans totaling \$4.8 million in 2005 to 18 loans totaling \$10.1 million in 2006. As a small institution with no retail presence and no branch offices, DSB is at a disadvantage when trying to compete with much larger and more established institutions in the AA. As stated previously, DSB operates in an extremely competitive banking environment. As of June 30, 2006, there were 32 financial institutions with 165 offices located in New Castle County. The bank competes with local commercial banks, numerous regional and super-regional commercial banks, savings banks, savings and loan associations, finance companies, credit unions, and private lenders. There are comparatively few community banks with total assets of less than \$100 million.

In summary, DSB’s net loan-to-deposit ratio indicates adequate lending levels, particularly when considering the steadily increasing trend in the ratio, the bank’s de novo status, and the competitive banking environment within which the bank operates.

Lending Within Assessment Area

DSB originates a substantial majority of loans within its AA. As summarized below, the bank originated 92 and 87 percent of commercial loans by number and dollar amount, respectively, within the AA. By percentage, DSB significantly increased loan volume between 2005 and 2006.

Table 2 – Distribution of Loans Inside and Outside of the Assessment Area										
Commercial Loans	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2005	8	100	0	0	8	\$4,772	100	\$0	0	\$4,772
2006	16	89	2	11	18	\$8,105	80	\$2,000	20	\$10,105
Total	24	92	2	8	26	\$12,877	87	\$2,000	13	\$14,877

Source: Bank Records

Geographic Distribution

This criterion assesses the bank’s performance in addressing the credit needs in low-, moderate-middle-, and upper-income census tracts. Overall, the bank achieved a reasonable geographic distribution of commercial loans within the assessment area. The following table details the geographic distribution of commercial loans originated by DSB in 2005 and 2006. An analysis

of geographic distribution by dollar volume yielded similar results. For comparative purposes, the table also includes the percentage of business locations by census tract income level according to 2005 Dun and Bradstreet data.

Table 3 – Commercial Loan Geographic Distribution							
Income Level of Census Tract	Percentage of Businesses in each Census Tract	Delaware Sterling Bank & Trust					
		2005 #	2005 %	2006 #	2006 %	Total	
						#	%
Low	14	1	13	1	8	2	9
Moderate	13	0	0	4	31	4	19
Middle	40	2	25	4	31	6	29
Upper	33	5	63	4	31	9	43
Total*	100	8	100	13	100	21	100
NA				3			

Source: Bank Records *Total percentage may not equal 100 due to rounding

As shown above, DSB originated two commercial loans (9 percent) in low-income census tracts and four commercial loans (19 percent) in moderate-income census tracts in 2005 and 2006. The bank's performance was below the 14 percent of businesses located in low-income census tracts and is above the 13 percent of businesses located in moderate-income census tracts. DSB is located in a middle-income census tract less than 10 miles outside the City of Wilmington where the majority of low- and moderate-income census tracts are located. Although the bank originated nine commercial loans in Wilmington, only four were located in low- and moderate-income census tracts. Three loans in 2006 could not be geo-coded and were not considered under this criterion.

Borrower Distribution

The distribution of loans to businesses of varying sizes is reasonable. The following tables analyze commercial loans originated by loan size and gross annual revenues in 2005 and 2006. An analysis of loan size and gross annual revenues by dollar volume of loans yielded similar results. Dun and Bradstreet reports that 90 percent of businesses in the assessment area have gross annual revenues of \$1 million or less.

Table 4 - Distribution of Commercial Loans by Loan Size						
Loan Size (000s)	2005		2006		Total	
	#	%	#	%	#	%
≤ \$100	1	13	5	53	6	25
> \$100 < \$250	4	50	3	27	7	29
> \$250	3	38	8	20	11	46
Total*	8	100	16	100	24	100

Source: Bank Records * Total percentage may not add to 100 due to rounding.

Table 5 - Distribution of Small Business Loans by Gross Annual Revenues of Business						
Gross Annual Revenues (000s)	2005		2006		Total	
	#	%	#	%	#	%
≤ \$1,000	7	88	15	94	22	92
> \$1,000	1	12	1	6	2	8
Total*	8	100	16	100	24	100

Source: Bank Records * Total percentage may not equal 100 due to rounding.

The bank is adequately serving the credit needs of small businesses. DSB originated the majority (54 percent) of commercial loans in amounts less than \$250,000. In 2005, the bank built a small portfolio of large dollar commercial loans. To offset these loans, the bank concentrated on originating smaller commercial loans in 2006. DSB originated 5 of the 16 commercial loans (31 percent) in amounts less than \$100,000. DSB originated 92 percent of commercial loans to businesses that had annual revenues of \$1 million or less, comparable to the 90 percent of businesses in the assessment area that have gross annual revenues less than \$1 million.

Response To Complaints

The bank and the FDIC have not received any CRA-related complaints regarding DSB.

Lending-Related Activities

The Federal Financial Institutions Examination Council, which is represented by the four primary regulatory agencies, has issued the Interagency Questions and Answers Regarding Community Reinvestment to provide informal guidance on frequently asked questions concerning certain community reinvestment issues. Section .26 of this document deals with small bank performance standards, and more specifically, question (a)-1 addresses the consideration of lending-related activities, such as community development loans, and lending-related qualified investments when evaluating a small institution. The answer to question (a)-1 states that lending-related activities may be considered in a small bank CRA evaluation. The aforementioned “Q&As” further state that this activity may be considered for the purposes of determining whether a small institution receives a satisfactory CRA rating.

Examiners considered the following lending-related activities in the evaluation of DSB’s CRA performance.

In November 2005, DSB committed \$250,000 to the Delaware Community Investment Corporation (DCIC) Community Investment Loan Fund II. To date, however, no loans have been extended under this commitment. DCIC is a community development corporation headquartered in Wilmington, Delaware, which provides financing for community revitalization projects throughout the state. The Community Investment Loan Fund provides long-term financing of commercial real estate projects located in areas targeted for revitalization. Loans are used to fill financing gaps for projects that stimulate additional development activity and create employment.

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Also considered in the evaluation of the bank’s CRA performance was its investment in lending-related qualified investments. The bank has invested over \$280,000 in such investments since its inception.

As a de novo institution operating in a highly competitive banking environment, DSB is not likely to compete successfully in originating home mortgage loans to low- and moderate-income borrowers. At this time, the bank is unable, or lacks the expertise, to offer any specialized residential mortgage programs aimed at these borrowers. However, the bank has recognized its responsibility to this segment of its assessment area, and in response, it participated in the following activities:

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In April 2006, DSB purchased \$250,000 in single-family mortgage revenue bonds through the Delaware State Housing Authority. Bond proceeds are used to offer below interest rate mortgages to low- and moderate-income residents of Delaware.

In September 2006, DSB invested \$30,000 in this community development corporation (CDC) formed by DSB's holding company. The primary purpose of the CDC is to purchase and rehabilitate houses in low- and moderate-income areas and sell to low- and moderate-income families.

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Sterling Community Development Corporation, LLC -

In November 2005, DSB paid a \$6,250 membership fee to DCIC. As stated previously, DCIC is a community development corporation headquartered in Wilmington, Delaware, which provides financing for community revitalization projects throughout the state.

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In August 2006, DSB donated \$500 to the Delaware Community Reinvestment Action Council. This is an organization that ensures equal access to credit and capital for the underserved populations and communities throughout Delaware through education, outreach, advocacy, and legislation.

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The aforementioned loans and investments constitute a good use of other lending-related activities and were considered in determining whether DSB achieved satisfactory CRA performance during the evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.