

PUBLIC DISCLOSURE

July 26, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Bank of Delmarva
8810**

**910 Norman Eskridge Highway
Seaford, Delaware 19973**

**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.

TABLE OF CONTENTS

I.	General Information.....	1
II.	Institution Rating	2
III.	Description of Institution.....	3
IV.	Description of Assessment Area	4
V.	Conclusions	6
VI.	State - Maryland	
	a. State Rating.....	18
	b. Scope of Examination.....	18
	c. Description of Operations	18
	d. Conclusions with Respect to Performance Tests	18
VII.	State – Delaware	
	a. State Rating.....	19
	b. Scope of Examination.....	19
	c. Description of Operations	19
	d. Conclusions with Respect to Performance Tests	19

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 **The Bank of Delmarva** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **July 26, 2004**. 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 Outstanding.

The Bank of Delmarva has an outstanding 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, based upon the following factors:

- A substantial majority of loans were originated inside the assessment area. Overall, 91.7 and 89.7 percent of the number and dollar volume of home mortgage and small business loans were originated inside the assessment area, during the evaluation period.
- There is a reasonable distribution of loans to low-income borrowers and an excellent distribution of loans to moderate-income borrowers and businesses of different sizes.
- The institution's lending performance is augmented by the use of flexible home mortgage and small business loan programs.
- The institution originated a high level of community development loans that provided for job retention/creation in the assessment area.
- The geographic distribution of loans is reasonable, given assessment area demographics.
- The loan-to-deposit ratio is reasonable, given the institution's ability and capacity to lend.
- The bank's investment record supplements the bank's lending performance and indirectly enhances credit availability in its assessment area and the broader, regional area that includes the assessment area.
- The institution's record of providing branches and automated teller machines enhances credit availability in its assessment area.
- The institution has an excellent level of community development services within the assessment area, especially compared to other local community banks.

DESCRIPTION OF INSTITUTION

The Bank of Delmarva is a full-service commercial bank with offices in Sussex County, Delaware and Wicomico County, Maryland. The bank is wholly-owned by Delmar Bancorp, Delmar, Maryland. The institution operates nine banking offices; five branches are located in Wicomico County and four branches are in Sussex County. All banking offices have automated teller machines (ATMs). The bank also operates six off-site cash dispensing only ATMs at Food Lion grocery stores in Maryland.

The institution had total assets of \$231.0 million as of March 31, 2004. Loans and deposits totaled \$147.7 million and \$200.3 million, respectively. The loan-to-deposit ratio was 73.7 percent. The bank offers several loan products, including residential and commercial real estate secured, construction loans, consumer loans, commercial non-real estate loans and agricultural loans. Commercial real estate and non-real estate loans account for a combined 50.9 percent of loans outstanding and residential real estate secured loans represented 26.1 percent. The following table details the loan distribution as of March 31, 2004.

Table 1 – Loan Distribution as of 03/31/04		
Loan Type	Dollar Amount (000s)	Percent of Total Loans
1-4 Family Residential	38,575	26.1
Home Equity Lines of Credit	817	0.6
Construction & Land Development	18,527	12.6
Multi-Family (5 or more)	1,375	0.9
Secured by Farmland	6,717	4.5
Commercial	57,204	38.7
Total Real Estate Loans	123,215	83.4
Commercial and Industrial	18,022	12.2
Consumer	5,106	3.5
Other	1,340	0.9
Total Loans	147,683	100

Source: Report of Condition

The bank is not a traditional mortgage lender. The majority of residential loans that the bank originates are referred to as “mini-perm” loans. Specifically, the bank offers a one, three, or five year demand loan. These loans are based on sound financial information, but may not be

supported by all the financial information normally required by secondary market investors. All fixed rate, 30 year mortgage requests are referred to Columbia National Mortgage.

The bank maintains a proactive approach to managing its CRA performance. A CRA Committee meets regularly and reviews the various innovative and flexible loan programs that are offered to customers. For example, flexible underwriting and financing is available for low- and moderate-income borrowers purchasing homes through Salisbury Neighborhood Housing Services. The Bank of Delmarva also participates in the innovative accounts receivable Business Manager Loan Program for small business owners. The program is designed to allow banks to finance credit-worthy, but cash flow challenged customers through an automated and risk controlled program. The bank is also an approved Small Business Administration and Maryland Industrial Development Finance Authority lender.

Furthermore, the Bank of Delmarva has many years experience in agricultural financing. Seasonal and operating lines of credit are available for farmers, equipment and real estate financing. A fixed-rate, fixed term loan is available for poultry farmers, one of the largest industries in the assessment area. The bank also originates loans with United States Department of Agriculture (USDA) guarantees. According to the CRA Officer, The Bank of Delmarva is the only community bank originating loans with USDA guarantees in the assessment area.

The bank's CRA performance was assigned a rating of Satisfactory at the July 26, 1999 review conducted by the Office of the Comptroller of the Currency. Small Bank procedures were utilized and will also be used for the current evaluation. There are no financial or legal impediments that would inhibit the bank's CRA performance.

DESCRIPTION OF ASSESSMENT AREA

The assessment area includes 53 census tracts, 36 in Sussex County, Delaware and 17 in Wicomico County, Maryland. Based upon 2000 U. S. Census data, 1 (1.9 percent) census tract is low-income, 3 (5.7 percent) moderate-income, 43 (81.1 percent) middle-income and 6 (11.3 percent) are upper-income. The assessment area includes 65,983 families, of which 18.6 percent qualify as low-income, 18.7 percent moderate-, 23.3 percent middle- and 39.4 percent upper-income. The majority of the area's housing units at 56.4 percent are owner-occupied, 17.9 percent are rental units and 25.6 percent are vacant. The assessment area's owner-occupancy rate is lower when compared to the owner-occupancy rates of the State of Delaware and State of Maryland at 63.0 and 62.5 percent, respectively. This is primarily attributed to the second/vacation homes in Rehoboth Beach, Sussex County, Delaware.

Few assessment area families live in low- and moderate-income census tracts, as 2000 U.S. Census data shows only 0.6 and 4.9 percent of families reside in low- and moderate-income census tracts, respectively. These demographics suggest little opportunity for lending in these tracts. The assessment area's median home value is \$110,142.

Sussex County is located in the non-metropolitan area of Delaware. In 2002 and 2003, Wicomico County was part of the non-metropolitan area of Maryland. The HUD-adjusted

median family income for the non-metropolitan areas of Delaware and Maryland, used to evaluate the borrower distribution of home mortgage loans, are shown in the following table.

Year	Delaware	Maryland
2002	\$49,700	\$54,800
2003	\$50,900	\$54,700

Based upon information available from Dun & Bradstreet for 2003, there are 14,085 non-farm establishments within the assessment area of which 92.6 percent report earning gross annual revenues of \$1 million or less. Of the non-farm establishments, 0.6, 4.4, 78.4 and 16.6 percent are located in low-, moderate-, middle-, and upper-income census tracts, respectively. Based upon these business demographics, opportunities for small business lending in low- and moderate-income census tracts are limited due to the small percentage of assessment area businesses located in these tracts. The major employment industries by standard industrial code are services at 34.6 percent, retail trade at 20.7 percent and construction at 11.5 percent. Poultry processing and agriculture are also important to the area's economy.

Sussex County is the southernmost and largest county in Delaware. The county's economy is heavily dependent upon poultry production and is largely rural in nature. Additionally, Sussex County is a popular summer tourist destination. The unemployment rate for Sussex County as of March 31, 2004 was 4.7 percent, according to information available from the Bureau of Labor and Statistics; slightly higher than the State of Delaware at 4.1 percent. However, it is noted that the unemployment rate tends to be peak in the first quarter due to seasonal employment opportunities and is lowest in the third quarter. The population increased 38 percent between 1990 and 2000 censuses in Sussex County, primarily in the beach communities.

Wicomico County is centrally located within the Delmarva Peninsula. The two leading industries are agriculture and poultry; Wicomico is the number one agricultural producing county in the state. According to information available from Salisbury-Wicomico Economic Development, Inc., the county's unemployment rate is similar to the State of Maryland, at 4.0 and 3.9 percent, respectively for June 30, 2004. The county's population has increased at an average rate of 1.6 percent over the past 30 years.

Competition within the assessment area for loans and deposits is strong. The CRA Officer noted that at least six community banks operate offices within the bank's assessment area. Larger commercial banks, such as PNC Bank, Delaware; Wilmington Trust Company; and Citizens Bank also operate branches within the assessment area. Additionally, several mortgage companies and finance corporations originate loans within the area.

Based upon 2002 HMDA aggregate home mortgage loan information, mortgage companies account for the largest market share of home mortgage loans originated. Wells Fargo Home Mortgage, First Horizon Home Loan Corporation, and Suntrust Mortgage, Inc., originated the most loans inside the assessment area and had market shares of 15.9, 7.1, and 5.5 percent, respectively. The following three banks led the market by number of home mortgage loans originated, Washington Mutual Bank, FA; Wilmington Trust Company, and PNC Bank, Delaware with market shares of 3.7, 3.6, and 2.6 percent, respectively.

Based upon aggregate small business lending information available for 2002, four credit card lenders lead the market by number of small business loans originated inside the assessment area. Peninsula Bank, Baltimore Trust Company, Wilmington Trust Company, PNC Bank, Delaware, and Citizens Bank ranked fifth, seventh, tenth, eleventh and fourteenth, respectively. Since the institution was not subject to the data collection and reporting requirements of Community Reinvestment, due to its size, its performance is not included in aggregate lending data. However, the 405 small business loans originated by The Bank of Delmarva in 2002 would have resulted in a lender market share of sixth of 67 reporters by the number of small business loans originated inside the assessment area.

A community contact was conducted during the performance evaluation to gather information on the community profile and to provide a context on the community in which the bank operates. Opportunities for financial institutions to help meet community credit needs were also discussed. The contact was conducted with a representative from a Salisbury, Maryland economic development corporation. The bank was a founding member of this organization which promotes economic development and job creation in Wicomico County. The contact noted that technical assistance provide by financial institutions is as important to the organization's overall mission as financial support. Recognizing the need for technical expertise, the bank's president sits on the Loan Board and reviews loan requests and works with customers on obtaining funding for business opportunities. Moreover, the Bank President has served as President of the organization for a four year term that recently ended.

A contact with a statewide community investment corporation that was made in conjunction with another examination was also referenced. The contact noted that developing infrastructure in rural Delaware is crucial to the success of affordable housing programs. The main constraints to growth are the lack of adequate water and sewer systems to support development. Additionally, much of the existing housing faces building code challenges. The Bank of Delmarva is cognizant of the infrastructure limitations within Southern Delaware and consequently, participated in nearly a \$1 million loan to a town in this area for improving water and sewage systems. This is detailed in the community development loan section.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Evaluation

The institution's performance was reviewed on-site and off-site using the Small Bank CRA evaluation procedures. The evaluation period covered a sample of home mortgage and small business loans originated between January 1, 2002 and December 31, 2003. Thirty-nine loans secured by residential real estate were sampled for each year to analyze lending performance in 2002 and 2003 from a universe of 280 and 180 originations, respectively. Additionally, sample sizes of 40 and 39 for 2002 and 2003 were used to analyze small business lending performance from a universe of 405 and 296 originations, respectively. More weight was given to the institution's small business lending when arriving at the overall rating, as small business loans represent a greater amount of overall lending. Consumer loans were not reviewed, as they do not represent a substantial majority of loans.

Given the bank's active participation in the assessment area via investments, lending, and retail and community development services, the evaluation of the bank's CRA performance included a review of qualified investments, community development loans, innovative and flexible loan programs, and retail and community development services.

To conduct the evaluation of the geographic distribution of loans, geographies for loans originated in 2002 were classified on the basis of 1990 U.S. Census data, while geographies for 2003 loan originations were classified using 2000 U.S. Census data.

Aggregate data for small business loans is presented in the Borrower's Profile and Geographic Distribution criteria to provide insight into the small business lending patterns of reporting institutions in the assessment area in 2002. CRA regulations only require that institutions with total assets of \$250 million or more report small business loan data; therefore The Bank of Delmarva is not currently reporting small business loans. The aggregate data presented in these tables represents the performance of all "large" institutions operating within the bank's assessment area, and therefore, it is not reasonable to expect the bank to achieve the same level of performance as these institutions. The aggregate information is shown merely as an indication of what lending opportunities were available in 2002.

Net Loan-To-Deposit Ratio

One area in which an institution can service the credit needs of its community is by making loans. Loans, for the most part, are funded through bank customer deposits maintained by the institution. A measurement of how well an institution makes loans in relation to the amount of deposits held is the loan-to-deposit (LTD) ratio. The bank's quarterly LTD ratio is then compared to similarly situated institutions and to a host statewide LTD ratio.

The institution's average net LTD ratio for the 19 quarters since the last CRA evaluation is 75.0 percent. This ratio was calculated by averaging the quarterly net loan-to-deposit ratio since September 30, 1999. The LTD is considered reasonable, given the institution's capacity and ability to lend. The net loan-to-deposit ratio has been relatively stable for the last 12-months.

The CRA Officer identified Hebron Savings Bank and The Farmers Bank of Willards as two similarly situated institutions in the assessment area that has similar product offerings and business strategies. The institution's had average net loan-to-deposit ratios of 89.4 and 79.9 percent, respectively, for the same 19 quarters.

The host statewide LTDs for 2003, using data as of June 30, 2004, were 82.0 and 85.0 percent for Delaware and Maryland, respectively. To determine where the bank ranks among institutions of similar asset size, the bank's peer data was reviewed using the Uniform Bank Performance Report (UBPR). The bank's peer group includes institutions with assets between \$100 and \$300 million with three or more banking offices and not located in a metropolitan statistical area. The peer group's net loan-to-deposit ratio as of March 31, 2004 was 76.1 percent.

Assessment Area Concentration:

The bank's lending performance in this criterion is evaluated based on the number and amount of major loan products originated inside the assessment area. An assessment area is a geographical area in which the bank intends to concentrate the majority of its lending. The bank's lending levels reflect an excellent responsiveness to community credit needs. Overall, 91.7 and 89.7 percent of the number and dollar volume of home mortgage and small business loans were originated inside the assessment area, during the evaluation period. As noted previously, the bank is one of the top small business lenders within the assessment area.

The following table sets forth the number and dollar amount of home mortgage and small business loans originated inside the assessment area for 2002 and 2003. As shown in Table 1, a substantial majority of loans were extended to individuals within the assessment area.

Table 1 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2002	37	94.9	2	2.1	39	1,805	93.3	130	6.7	1,935
2003	31	79.5	8	20.5	39	2,707	79.3	706	20.7	3,413
Subtotal	68	87.2	10	12.8	78	4,512	84.4	836	15.6	5,348
Small Business										
2002	39	97.5	1	2.5	40	1,613	98.4	26	1.6	1,639
2003	37	94.9	2	2.1	39	1,748	97.9	38	2.1	1,786
Subtotal	76	96.1	3	3.9	79	3,361	98.1	64	1.9	3,425
Total	144	91.7	13	8.3	157	7,873	89.7	900	10.3	8,773

Source: Bank data (2002-2003)

Borrower's Profile

This category evaluates the bank's record of lending to low-, moderate-, moderate-, and upper-income borrowers and businesses of different revenues. Overall, the distribution of borrowers reflects reasonable penetration to low-income borrowers and exceptional performance in lending to moderate-income borrowers and businesses of different sizes.

Home Mortgage Lending

The following table details the distribution of the bank's HMDA loans by borrower income levels for 2002 and 2003. For comparison, the distribution of the families by income level as well as 2002 aggregate HMDA lending data is also shown. HMDA data for 2003 is not available. Only loans extended within the assessment area are included in the analysis. The dollar distribution of loans does not reflect material differences in overall performance.

Table 2 - Distribution of Home Mortgage Loans by Borrower Income								
Borrower Income Level	% of Assessment Area Families	2002 Aggregate Lending Data	2002		2003		Total	
			#	%	#	%	#	%
Low	18.6	12.5	3	8.1	4	12.9	7	10.3
Moderate	18.7	20.4	15	40.5	8	25.8	23	33.8
Middle	23.3	23.8	13	35.1	10	32.3	23	33.8
Upper	39.4	43.3	5	13.6	9	29.0	14	20.6
\$0/NA Income	0.0	0.0	1	2.7	0	0.0	1	1.5
Total	100	100	37	100	31	100	68	100

Source: 2000 U.S. Census, Bank records (2002-2003)

The percentage of loans originated to low-income borrowers is lower when compared to assessment area demographics and 2002 aggregate performance. However, an increasing trend in 2003 is noted. Additionally, the distribution of loans to moderate-income borrowers during 2002 is exceptional at 40.5 percent and far exceeds 2002 aggregate performance and area demographics. While the percentage of loans originated to moderate-income borrowers declined in 2003, performance is still strong at 25.8 percent.

Small Business Lending

The following table details the distribution of small business loans by gross annual revenue of the business. Small business lending is compared to the percentage of small businesses reporting different revenues in the assessment area. Aggregate 2002 small business lending data is also presented to help establish small business lending opportunities within the assessment area. (Please refer to the Performance Context for further information regarding the use of small business aggregate lending data.)

The dollar distribution of loans does not reflect material differences in overall performance.

Table 3 – Distribution of Small Business Loans by Gross Annual Revenues of Business								
Gross Annual Revenues (000s)	Assessment Area Businesses	Aggregate 2002	2002		2003		Total	
	%	%	#	%	#	%	#	%
≤ \$1,000	92.6	32.6	26	66.7	31	83.9	57	75.0
> \$1,000 or NA	7.4	67.4	13	33.3	6	16.1	19	25.0
Total	100	100	39	100	37	100	76	100

Source: Bank records (2002-2003), CRA aggregate data (2002), Dun & Bradstreet (2003)

The institution's lending for 2002, at 66.7 percent of loans originated to businesses reporting gross annual revenues of \$1 million and less, reflects exceptional performance when compared to that of other financial institutions that originate small business loans within the bank's assessment area at 32.6 percent. While the percentage of small business loans originated to businesses with revenues of \$1 million and less is below the percentage of assessment area businesses reporting this level of income, an increasing trend in the percentage of number of loans originated to this category for 2003 is noted.

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 clearly states that lending-related activities may be considered in a small bank CRA evaluation. As an institution with less than \$250 million in assets, The Bank of Delmarva is a small institution for the purposes of this CRA evaluation.

The Bank of Delmarva provided the following information to be considered in the evaluation of their CRA performance:

Flexible Home Mortgage Programs

The Bank of Delmarva's home mortgage lending is augmented by flexible lending programs. The following programs are available for low- and moderate-income home mortgage borrowers:

- The institution originates loans to borrowers that attend home ownership programs sponsored by the Salisbury Neighborhood Housing Services (SNHS). The loans are available to individuals purchasing homes in areas designated by SNHS as in need of improvement, specifically, the Camden, West Side and Church Street Districts in Wicomico County. The loans are originated at below market interest rates and underwritten using more flexible criteria. Additionally, The Bank of Delmarva waives the attorney's settlement fee. Since the previous examination, 12 loans totaling \$952,591 were originated through the program. The program is seen as being particularly effective in neighborhoods that are in transition and is responsible for creating new homeowners in the area.
- The Bank of Delmarva has a referral relationship with Columbia National Mortgage, which enables the bank to provide 30-year fixed rate mortgage loans to its customers. Financing of up to 95 percent of value is available. In 2003, over \$3.5 million in mortgages were referred to Columbia National Mortgage.

Small Business and Small Farm Programs

The Bank of Delmarva's small business and farm lending performance is augmented by the use of flexible loan programs and community development lending. The institution participates in the following loan programs:

- The bank provided \$3.1 million in financing through the Business Manager Program to seven customers. The program is designed to allow banks to finance credit-worthy but cash flow challenged customers through an automated and risk controlled software program.
- The institution originated 12 loans totaling \$2.2 million with Small Business Administration guarantees.
- Since the prior evaluation, the bank originated four loans totaling \$600,000 guaranteed by the United States Department of Agriculture (USDA). The CRA Officer indicated that The Bank of Delmarva is the only community bank in the assessment area that is an approved USDA lender, demonstrating their leadership role among community banks in the agricultural market.

Community Development Loans

Since the last evaluation, the bank originated six loans exhibiting community development lending characteristics totaling \$4.3 million.

- The Bank of Delmarva originated two loans totaling \$3.0 million insured by the Maryland Industrial Development Finance Authority (MIDFA) between CRA evaluations. One of the loans provided \$1.5 million in funding for the purchase of a sawmill that had recently closed. The borrower reopened the mill and thereby, retaining the jobs of 50 full-time employees and 22 contract laborers. The sawmill is located in a moderate-income area. The other \$1.5 million loan supported the expansion of a seafood processing company also located in a moderate-income area. Proceeds were used to

expand the business into new markets and diversify product lines creating more year round employee positions.

- The institution originated a loan to a local government to support community development activities. Specifically, the Bank of Delmarva is the lead participant in a \$1.8 million loan to the Town of Laurel, Sussex County. This town is within close proximity to pockets of distressed rural areas. The loan was used for the extension of water and sewer services as well as upgrades to the wastewater treatment plant. The Bank of Delmarva's portion, \$916,500, was originated at a fixed 5.0 percent for 20 years. Sussex County has historically suffered from poor infrastructure. Special financing for improving and providing infrastructure has long been identified by area nonprofits and community development organizations as a necessary cornerstone and link to providing affordable housing.
- The institution originated a \$246,400 loan to a nonprofit organization that provides human and social services including food, clothing and temporary housing to community members in need. The funds were used to expand existing facilities, including a day-care operation. The facility is located in a moderate-income area.
- The Bank of Delmarva originated two loans totaling \$170,000 used to construct 12 single-family units of affordable housing in a moderate-income area in Salisbury.

Geographic Distribution

This performance criterion considers the geographic distribution of the bank's lending activities based on the loan location, including the dispersion of lending in the bank's assessment area, and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies in the bank's assessment area. The dollar distribution of loans does not reflect material differences in overall performance.

As indicated under Description of Assessment Area, the bank's assessment area is relatively homogeneous in nature and middle-income census tracts at 81.1 percent make up the vast majority of the area. Upper-income census tracts represent 11.3 percent of the assessment area, moderate-income 5.7, and low-income 1.9 percent. Middle- and upper-income census tracts represent 92.4 percent of the assessment area census tracts. Furthermore, the low percentages of owner-occupied housing units and businesses located in the low- and moderate-income census tracts indicate limited opportunities for lending in these tracts.

Given these demographics, the geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the assessment area. Table 3 illustrates the distribution of the bank's originations of home mortgage loans. For comparison, the distribution of the assessment area's owner-occupied housing units for each census tract income level and 2002 aggregate data is also shown. Only loans extended inside the assessment area are shown.

Table 3 - Distribution of Home Mortgage Loans by Income Category of the Census Tract								
Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2002		2003		Total	
			2002	#	%	#	%	#
Low	0.1	0.1	0	0.0	0	0	0	0.0
Moderate	2.9	1.2	1	2.7	1	3.2	2	2.9
Middle	83.5	84.8	35	94.6	25	80.7	60	88.2
Upper	13.5	13.9	1	2.7	5	16.1	6	8.9
\$0/NA Income	0	0.0	0	0.0	0	0.0	0	0.0
Total	100	100	37	100	31	100	68	100

Source: 2000 U.S. Census, Bank data (2002-2003)

Despite the limited opportunity for lending in moderate-income census tracts, the bank originated one loan in a moderate-income tract in each year, which compares to the percentage of owner-occupied housing units.

The geographic distribution of the small business loan sample is shown in the following table. The percentage of assessment area business located in these tracts is shown for comparison purposes. Aggregate 2002 small business lending data is also presented to help establish small business lending opportunities within the assessment area. (Please refer to the Performance Context for further information regarding the use of small business aggregate lending data.)

Table 4 - Distribution of Small Business Loans by Income Category of the Census Tract								
Census Tract Income Level	% of Businesses by Census Tract	Aggregate Data	2002		2003		Total	
	2002	2002	#	%	#	%	#	%
Low	0.6	0.9	0	0.0	0	0.0	0	0.0
Moderate	4.4	7.6	2	5.1	2	5.4	4	5.3
Middle	78.4	76.2	36	92.3	22	59.5	58	76.3
Upper	16.6	15.3	1	2.6	13	35.1	14	18.4
\$0/NA Income	0.0	0.0	0	0.0	0	0.0	0	0.0
Total*	100	100	39	100	37	100	76	100

Source: Dun & Bradstreet (2002), CRA Disclosure Data (2002) and Bank Records

While the institution did not originate any small business loans in low-income census tracts based on the sample, less than one percent of the assessment area businesses are located there. The percentage of small business loans originated in moderate-income census tracts in 2002 is slightly higher when compared to the percentage of businesses located there, though somewhat lower compared to aggregate data. Performance in 2003 is consistent with the prior year's performance.

Response to Complaints

No CRA-related complaints were received since the last CRA Evaluation.

Compliance with Antidiscrimination Laws

The bank's fair lending policies and practices were reviewed. No material deficiencies were noted.

Investments

The Bank of Delmarva's investment record supplements the bank's lending performance. Since the last evaluation, the bank has made \$181,775 in qualified investments and donations in its assessment area and a broader, regional area that includes its assessment area. The following investment was made during the evaluation period:

- In May 2003, the Community Development Financial Institutions Fund offered monetary incentives through its Bank Enterprise Award Program. This investment indirectly enhances the availability of credit in distressed and urban and rural areas as the funds are

used to expand the availability of credit. As no institutions within the bank's assessment area participate in the program, The Bank of Delmarva purchased a \$100,000 certificate of deposit from City First Bank of DC under the Bank Enterprise Award Program.

In addition, the bank made \$81,775 in qualifying donations to local community organizations. Specifically, the bank contributed over \$31,467 in 2002; \$25,500 in 2003, and \$24,808 as of July 26, 2004. The grants and donations have provided for funding for affordable housing, small business development, and programs for at risk youth. The following are examples of donations made between CRA evaluations:

- The bank contributed \$15,000 to Salisbury Neighborhood Housing Services (SNHS). The organization promotes reinvestment & revitalization of neighborhoods within the City of Salisbury. As of June 2004, SNHS has helped 188 families obtain home ownership with loans exceeding \$13 million.
- The Bank of Delmarva is a participant of Habitat on Maryland's Lower Shore's "Banking on Our Community." The program requires a financial commitment from local banks to provide funding for the construction of a new home in the Church Street area of Salisbury. The home will subsequently be sold to a low- or moderate-income borrower. The bank provided a \$5,000 grant for the project. The group is working with Salisbury Urban Ministries and SNHS on a 5-year plan to rehabilitate the Church Street area.
- The Salvation Army oversaw a campaign to raise funds for the construction and endowment of a boys and girls club on the West Side of Salisbury, which is an economically distressed neighborhood. The boys and girls club provides activities for at-risk youth as well as a variety of other services for low-income families. The bank donated \$8,000 to the project. The West Side neighborhood was identified by the community contact as an area in need of economic development.

Services

The Bank of Delmarva's retail and community development services enhance credit availability in its assessment area.

Retail Services

The location of Bank of Delmarva's full service branches provides convenient access to credit and non-credit services. The Salisbury, Maryland branches are convenient to the assessment area's moderate-income neighborhoods. The institution's alternative delivery systems, including its ATMs, bank by computer service and deposit drops are considered effective alternatives to branches in providing services to all members of the assessment area. The institution offers several low cost deposit account and commercial business accounts.

The bank operates nine full-service branches; five branches are located in Wicomico County, Maryland and four branches are in Sussex County, Delaware. One branch is located in a

moderate-income census tract, one branch is in upper-income census tract, and seven branches are located in middle-income census tracts.

One branch, in Rehoboth Beach, Delaware, was opened between evaluations in May 2001 in a middle-income census tract. The bank also opened a depository drop at Hanna, Kremer, Tilghman Insurance, Inc. in October 2002, in an upper-income census tract to provide services to customers in the downtown Salisbury area. All branch offices have night deposit and mail deposit services available, a convenient service for local businesses.

All banking offices have automated teller machines (ATMs). The bank also operates six, cash dispensing only, off-site ATMs in Food Lion grocery stores. One Food Lion ATM is located in a moderate-income census tract and five are in middle-income census tracts.

Branch lobby hours are until at least 2 p.m. Monday through Thursday and 6 p.m. on Friday. Drive-up windows offer extended hours, closing at 4 p.m. Monday through Wednesday and at 6 p.m. on Thursday and Friday. The drive-up windows are open on Saturday from 8:30 a.m. to noon.

The bank offers free checking to full-time students and senior citizens and the first order of checks is free. There is also a no-fee checking account for commercial customers that maintain an average collected balance of \$500 per month. The commercial accounts have access to night deposit drops, free coin and currency orders, and free internet banking. The Bank of Delmarva provides free, on-line banking to consumer and commercial deposit account holders or borrowers. This service allows customers 24-hour access to their loan and deposit accounts. The institution also offers an on-line bill payment service.

Community Development Services

The Bank of Delmarva provides an excellent level of community development services throughout the assessment area. Bank representatives have been instrumental in the founding/establishment of several nonprofit housing organizations and economic development corporations and continue to provide technical assistance to these same organizations. Additionally, bank representatives provide technical assistance to numerous organizations relating to housing and homeownership and revitalizing commercial districts. The institution is represented on at least three dozen organizations that provide various community development services. The following are examples of the types of community development services provided by bank employees:

The institution has been involved with **Salisbury Neighborhood Housing Services (SNHS)**, since its inception ten years ago. The organization works to promote reinvestment and revitalization in Salisbury neighborhoods. The bank's president served as a director until 2003, when he was replaced by the CRA Officer. Another bank employee is also a SNHS director. The CRA Officer also volunteers to teach the homeownership counseling class "Are You Ready to Buy a Home?" This is a four week class, which meets once a week, for three hours per night.

The CRA Officer has been active in **Habitat for Humanity of Wicomico County** for several years. The individual serves on the organization's Family Selection Committee, which meets monthly to select qualified families for Habitat's programs. The committee is responsible for developing the orientation program, screening and interviewing applicants, and providing homeownership counseling. The CRA Officer also serves as a Family Support Advocate, providing support to one family, pre- and post-purchase, throughout the home buying process.

The CRA Officer has been active in **Maryland Young Bankers** since 1990. The group of volunteer bankers provides educational presentations to area schools and civic associations across the state. The Personal Economics Program (PEP) covers topics such as establishing credit, applying for a loan, checking account management, and banking careers. The CRA Officer was selected as the top PEP banker for a number of years, based upon the number of presentations. The CRA Officer was also instrumental in developing a home ownership counseling program, Home Ownership Made Easy, which is designed to educate first time home buyers about the mortgage process. The course includes budgeting, applying for a mortgage, and general banking services. This program is also used throughout the state.

Salisbury-Wicomico Economic Development (SWED) is a nonprofit economic development corporation that works toward strengthening the local economy through the retention, attraction and diversification of industry and business. The bank played a key role in the founding of this organization. Bank employees and directors have served in various capacities since the organization's inception, including president and loan advisory committee. SWED has facilitated the creation of hundreds of jobs within the community.

SWED has an in-house loan pool program that was a brainstorm idea of the current Bank President. The president worked extensively with SWED's executive director to establish a revolving loan fund and was instrumental in capitalizing the fund through state and county means. The \$1 million initial capitalization has a valuation of approximately \$2.1 million as of January 2003 and has assisted 15 businesses and has created nearly 1,000 new jobs. The fund is used by new business in need of capital. Capitalization was achieved in equal amounts from Wicomico County and a matching grant from Maryland's Department of Business and Economic Development. This is a strong example of invaluable technical assistance of which the contact noted as a vital part of any community organization's success.

The CRA Officer recently served a 3-year term on the board of directors of the **Maryland Industrial Development Financing Authority (MIDFA)**. MIDFA provides financing support for businesses located in Maryland and/or businesses that are considering moving to the state of Maryland. MIDFA has several financing programs, including tax-exempt financing, taxable bond financing, trade finance programs and seafood/agricultural loans. While the organization does not make the loans, it provides either total or partial insurance to the financial institution processing the loans.

At least twice a year, a representative from Delmarva Investment Services, an affiliate, provides seminars to small businesses free of charge. Many bank officers also participate in the seminar.

STATE

CRA RATING FOR MARYLAND¹: Outstanding.

SCOPE OF EXAMINATION

Refer to the Scope of the Evaluation found on page 6.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MARYLAND:

The bank operates five, or 55.6 percent, of its branches in Wicomico County, Maryland. As of June 30, 2003, the bank had \$128.2 million in deposits in its Maryland branches, or 66.8 percent of total deposits.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MARYLAND:

Based upon the sample reviewed, the bank originated 28 home mortgage loans totaling \$2.1 million and 45 small business loans totaling \$1.4 million in Wicomico County, Maryland. Combined, these figures represent 50.7 and 44.9 percent of the number and dollar volume of loans originated inside the assessment area, respectively, during the period reviewed. The percentage of the number of loans originated in Maryland is consistent with the bank's presence in the State.

It is reasonable to assume the bank's performance within this state is consistent with its overall performance. Specifically, the borrower and geographic distribution of loans in Maryland is similar to its overall performance. The bank's innovative/flexible loan programs are available throughout the entire assessment area. Several community development loans were originated in Maryland. Several investments benefited organizations located in Maryland, including grants to SNHS, Habitat of Wicomico County and the Salvation Army. Retail banking services are consistent throughout the assessment area. The institution is a leader in providing community development services in Wicomico County, Maryland.

¹For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation is adjusted and does not reflect performance in the parts of those states contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

STATE

CRA RATING FOR DELAWARE²: **Outstanding**

SCOPE OF EXAMINATION

Refer to the Scope of the Evaluation found on page 6.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN DELAWARE:

The bank operates four, or 44.4 percent, of its branches in Sussex County, Delaware. Based upon information available as of June 30, 2003, deposits in Delaware totaled \$63,688 million, or 33.2 percent of total deposits. The Rehoboth Beach branch, which opened in May 2001, had slightly under \$5 million in deposits.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN DELAWARE:

Of loans 144 loans originated inside the assessment area during the period reviewed the bank originated 40 home mortgage loans totaling \$2.4 million and 31 small business loans totaling \$2.0 million in Sussex County. Combined, these figures represent 49.3 and 55.1 percent of the number and dollar volume of loans originated inside the assessment area, respectively during the period reviewed. The percentage of the number of loans originated in Delaware reflects the bank's presence in the State.

It is reasonable to assume the bank's performance within this state is consistent with its overall performance. For example, the borrower and geographic distribution of loans in Delaware is similar to its overall performance. The bank's innovative/flexible loan programs are available throughout the entire assessment area. The institution originated a \$916,500 loan for improvements to Laurel, Delaware's infrastructure.

Several grants and donations benefited organizations located in Delaware, including grants to various Chambers of Commerce. Retail services are consistent throughout the assessment area. Community development services that specifically benefit Delaware include participation in Laurel Redevelopment Authority, Delmar Downtown Revitalization Committee, Blades (Delaware) Economic Development Committee and various Chambers of Commerce.

²For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation is adjusted and does not reflect performance in the parts of those states contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.