

PUBLIC DISCLOSURE

September 30, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Discover Bank
5649**

**12 Read's Way
New Castle, Delaware 19720**

**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 **Discover Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 30, 2004**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

Overall, Discover Bank demonstrates an Outstanding response to the credit needs of its assessment area based on the following:

Lending

- The bank exhibits good responsiveness to credit needs in the assessment area. Discover Bank originated/purchased more home mortgage loans inside the assessment area in 2002 than any other financial institution, based upon aggregate data.
- A high percentage of loans are originated/purchased inside the assessment area.
- The geographic distribution of loans is adequate, given the homogeneous nature of the assessment area.
- There is an excellent penetration of home mortgage loans to low- and moderate-income borrowers.
- Discover Bank, through Morgan Stanley/Discover Community Development Corporation, originated a relatively high level of community development loans in the assessment area, providing \$7.5 million in construction financing for multi-family affordable housing and committing \$20 million in construction financing for affordable single-family housing units.
- The bank uses flexible home mortgage loan products to serve credit needs.

Investments

- Discover Bank has an excellent level of qualified community development investment and grants, often in a leadership position.
- Several investments and grants are not routinely provided by private investors.
- Grant and investment activity exhibits excellent responsiveness to credit and community development needs.

Services

- Delivery services, both of a retail and community development nature, reflect a strong responsiveness to assessment area needs.
- Discover Bank is a leader in providing community development services in the assessment area.

LENDING, INVESTMENT, AND SERVICE TEST TABLE:

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Discover Bank		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

DESCRIPTION OF INSTITUTION :

Discover Bank was founded in 1911 as a community bank in Greenwood, Delaware, under the name of Greenwood Trust Company. The institution was purchased by Sears, Roebuck & Co. in 1985 to issue its Discover Card. The institution's name was changed to Discover Bank, effective August 1, 2000. Today, Discover Bank is wholly-owned by NOVUS Credit Services, Inc., Riverwoods, Illinois, which in turn, is wholly-owned by Morgan Stanley, New York, New York. Morgan Stanley is a global financial services firm and market leader in securities, asset management, and credit services. In addition to offering credit cards, the institution maintains a retail operation in Greenwood, Delaware. This office is the focal point of the bank's CRA activities.

Prior to July 31, 2004, first mortgage residential loan production was generated through a correspondent relationship with First Horizon Mortgage, MNC Division. In February 2004, Discover Bank entered into a contractual purchase relationship with Chase Home Finance (Chase). With this relationship, Chase takes home loan applications and underwrites loans using Discover Bank guidelines. Chase closes the loans, which are subsequently purchased by Discover Bank. The bank's Community Loan Fund Program is offered through Chase. The Chase relationship was developed to increase process efficiency, exposure and impact of Discover Bank's products in its expanded assessment area. Additionally, the bank created the Whole Loan Purchase Program (WLP) in 2002 to facilitate the purchase of first mortgage residential loan production from other area banks.

Discover Bank began marketing its home equity loan program, Discover Home Loans (DHL), nationally in 2002. All first mortgage residential loan production and applicable DHL production are reported together in keeping with the provisions of the Home Mortgage Disclosure Act (HMDA).

Discover Bank and its parent company Morgan Stanley formed the Morgan Stanley/Discover Community Development Corporation (MSDCDC), a wholly-owned subsidiary of Morgan Stanley, in order to take a leadership role in community development projects. The CDC allows the bank to participate in commercial real estate lending opportunities despite its charter restrictions. The MSDCDC is discussed in further detail under the Investment Test section of this evaluation.

Discover Bank had total assets of \$17.5 billion based upon the June 30, 2004 Call Report. Deposits totaled \$10.9 billion and loans totaled \$16.5 billion. The loan mix is detailed in Table 1, with credit cards accounting for 99.0% of the bank's loans.

Discover Bank is unique in that while it is an integral subsidiary of a national operation serving millions of credit card customers, portions of its balance sheet, Call Reports, and FDIC-generated Uniform Bank Performance Reports are indicative of a community bank.

Table 1 - Loan Distribution as of 06/30/04

Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	659	0.0
Secured by Farmland	0	0.0
1-4 Family Residential	168,553	1.0
Multi-Family (5 or more) Residential	0	0.0
Commercial	2,829	0.0
Total Real Estate Loans	172,041	1.0%
Commercial and Industrial	0	0.0
Agricultural	0	0.0
Consumer	16,328,665	99.0
Other	556	0.0
Less: Unearned Income	0	0.0
Total Loans	16,501,262	100%

Source: Report of Condition

The institution's CRA performance was assigned a rating of Satisfactory at the June 19, 2001 performance evaluation. The institution's performance was evaluated using the same large bank evaluation procedures. There are no financial impediments that would adversely affect the bank's CRA performance. However, as an institution subject to the Competitive Equality Banking Act, there are some legal lending restrictions due to its charter.

Description of the Assessment Area

The CRA requires each financial institution to define an assessment area within which its CRA performance will be evaluated. The bank's assessment area is in conformance with the CRA regulation. The assessment area, as currently defined, meets the following technical requirements of the regulation: (1) it consists of one or more political subdivisions, (2) includes the geographies where the bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated a substantial portion of its loans, (3) consists of whole census tracts, (4) does not extend substantially beyond state boundaries, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

Discover Bank maintained different assessment areas for 2002 and 2003. Since data relating to 2002 is reported using 1990 Census data, and 2003 is reported using 2000 Census data, the following information relating to assessment areas for 2002 and 2003 is presented:

2002

The institution's assessment area included nine contiguous census tracts in 2002, five census tracts in Sussex County and four in Kent County, Delaware. All nine census tracts are middle-income. Of the 16,249 families in the assessment area 18.4 percent were low-income, 17.8 percent moderate-, 24.9 percent middle-, and 38.9 percent upper-income. The HUD-adjusted median family income for 2002 was \$49,700 and \$52,100 for Sussex and Kent Counties, respectively.

The majority of housing units at 69.2 percent are owner-occupied, 21.8 percent are rental units and 9.0 percent are vacant. The most prevalent type of housing units was one-to-four family, which accounted for 75.4 percent of all housing units, mobile homes accounted for 18.1 percent and multi-family housing units 5.8 percent.

2003

After a review of deposit patterns, Discover Bank expanded its assessment area to include 4 additional tracts in Kent County and 19 in Sussex County. For 2003, the assessment area includes 32 census tracts; 8 in Kent and 24 Sussex Counties, Delaware. There are no low-income census tracts, 2 or 6.3 percent are moderate-income, 29 or 90.6 percent middle- and 1 or 3.1 percent is upper-income. Of the 37,304 families in the assessment area 19.6 percent are low-income, 20.4 moderate-income, 24.7 middle-income and 35.3 percent are upper-income. The HUD-adjusted median family income for 2003 was \$51,700 and \$53,200 for Sussex and Kent Counties, respectively.

The majority of housing units at 66.7 percent are owner-occupied, 18.8 percent of housing units are rental and 14.5 percent are vacant. One-to-four family housing units are the most common at 65.3 percent and mobile homes represent 29.8 percent of assessment area housing units. As the housing unit percentages suggest, there are a limited number of rental housing units and multi-family units within the assessment area. Census data suggests that there is limited opportunity for home mortgage lending in the area's moderate-income census tracts as a modest 4.3 percent of area's owner-occupied units are located in these census tracts. Furthermore, looking at each tract individually, only 3.1 and 1.3 percent of the housing units in census tracts 430 and 425 respectively are owner-occupied.

A comparison of the assessment areas and 1990 and 2000 Census data indicates that despite the significant increase in the number of families within the assessment area, the percentage of low- and moderate-income families has remained relatively stable and the majority of census tracts

within the assessment area continue to qualify as middle-income. A significant increase in the percentage of housing reported as mobile homes is noted.

The majority of the assessment area is the predominantly rural areas of Sussex County. As a whole, Sussex County has the highest poverty rate and the highest rate of sub-standard housing in Delaware. The county is also home to a significant Hispanic immigrant/migrant population who primarily work in the region's poultry industry. The percentage of multi-family housing units is significantly lower than the rest of the state, while the percentage of mobile and manufactured housing is almost three times that of the state.

Discover Bank management provided information relating to assessment area credit needs based upon contacts made with state, and local community development and affordable housing agencies. Credit needs within the assessment area and other issues adversely affecting the area were identified as:

- Increases in the housing and land costs within the assessment area are making homes less affordable for low- and moderate-income individuals and families despite low-interest rates and special credit bank and government programs.
- Developers are by-passing low-income housing development because a greater profit can be realized in developing larger homes.
- Need for affordable senior housing and single-family development.
- Higher paying jobs are needed to support increasing housing prices.
- Competition for housing has increased, as the population in Sussex County increased 38 percent between the 1990 and 2000 Census.

Two community contacts were conducted within the assessment area during this evaluation to gain a perspective on the community development opportunities within the area and the performance of financial institutions in helping to meet the area's credit and community development needs. One community contact noted that the rapidly increasing cost of land in rural Sussex County is displacing many low- and moderate-income individuals and families, many of whom live in mobile homes. As a result, the need for programs to finance the development of low- and moderate-income housing, particularly for migrant poultry and farm workers was identified. One contact noted that monetary donations to fund organization's operations are a way in which financial institutions can participate in community development activities. The contacts noted that the local financial institutions are supporting community development efforts in Southern Delaware.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

Evaluation Period and Products Evaluated

The scope of the lending review included home mortgage lending activity for 2002 and 2003, as these product lines are integral to the institution's business strategy and serve important community needs. Certain information necessary to complete an analysis of 2004 data was unavailable as of the evaluation date and therefore, it was not reviewed. The institution did not collect data relating to consumer loans; however, as consumer loans (i.e. credit card loans)

constitute a substantial majority of the bank's lending, information relating to consumer lending is included in the performance evaluation. The institution did not originate any small business loans and therefore, small business loans are not included in the scope of the products reviewed. Also not included in the following analysis are loans originated under the Discover Home Loan (DHL) program. Since this is a nationally marketed product, its inclusion in this evaluation would unfairly skew the bank's performance.

The institution's community development lending, investment and grant activity was also evaluated; as well as retail and community development services provided within the assessment area. Activities in these areas conducted between June 19, 2001 and September 30, 2004 (the ending date of the most recent CRA evaluation period to the start date of the current evaluation) will be evaluated.

Standardized Tables

The FFEIC has adopted a standard set of data tables, sequentially numbered 1-15, for use in every Large Bank CRA Public Evaluation. The standardized tables routinely reflect home mortgage, consumer, multi-family, small business and small farm lending. The bank's activity is presented as zero for products in which there was no lending activity. The tables in the appendix include information for Kent County (Dover MSA 2190) and Sussex County (non-metro portion of Delaware) as they are separate assessment areas.

LENDING TEST

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Lending Activity

Lending levels reflect good responsiveness to assessment area credit needs. During the period reviewed, the total dollar volume of home mortgage and community development lending totaled \$50.7 million. MSDCDC also entered into a \$20 million agreement to provide flexible construction financing with another local bank targeted at increasing the availability of single-family housing stock to low- and moderate-income borrowers within the assessment area.

The institution is subject to intense competition for home mortgage loans from numerous commercial and large retail banks, mortgage and finance companies and other financial institutions operating within the assessment area. During 2002, 192 institutions reported home mortgage loans originated or purchased inside the assessment area pursuant to the Home Mortgage Disclosure Act (HMDA). Wells Fargo Home Mortgage ranked first by number and dollar amount within the assessment area with market shares of 8.9 and 9.1 percent, respectively. Discover Bank was second, with 8.0 and 7.4 percent of the number and dollar volume, respectively, of home mortgage loans originated inside the assessment area. Two financial institutions, PNC Bank Delaware, and Wilmington Trust Company were third and fourth, respectively. Discover Bank's 2002 market rank was strong given its limited branch network.

While the number and dollar volume of home mortgage loans originated/purchased in 2002 and 2003 inside and outside the assessment remained relatively stable, Discover Bank's market rank by number of home mortgage loans originated/purchased inside the assessment area in 2003 fell from second to twelfth. Similar to 2002 data, Wells Fargo Home Mortgage was the market leader. The following mortgage lenders were included in the top lenders inside the assessment area: Chase Manhattan Mortgage, First Horizon Home Loan Corporation, and Wilmington Trust Company. The decline in market rank was the result of a reduction in origination activity through the First Horizon relationship. Additionally, the majority of loans purchased through the WLP were outside the assessment area.

Assessment Area Concentration

Discover Bank originated or purchased a high percentage of loans within the assessment area during the review period. Focusing on the loans originated/purchased at the retail bank level and excluding the national DHL, 71.1 and 73.8 percent of home mortgage loans by number and dollar amount, respectively, were originated/purchased inside the assessment area. The bank's lending activity during the review period is detailed in the following table.

<i>Table 2 - 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>		
Home Mortgage											
2002	259	83.3%	52	16.7%	311	27,350	87.8%	3,817	12.2%	31,167	
2003	174	58.4%	124	41.6%	298	15,810	58.0%	11,469	42.0%	27,279	
Subtotal	433	71.1%	176	28.9%	609	43,160	73.8	15,286	26.2%	58,446	
DHL Program											
2002	0	0.0%	109	100.0%	109	0	0.0%	5,335	100.0%	5,335	
2003	3	0.6%	466	99.4%	469	90	0.5%	19,689	99.5%	19,779	
Subtotal	3	0.5%	575	99.5%	578	90	0.4%	25,024	99.6%	25,114	

Total Mortgage Loans											
2002	259	61.7%	161	38.3%	420	27,350	74.9%	9,152	25.1%	36,502	
2003	177	23.1%	590	76.9%	767	15,900	33.8%	31,158	66.2%	47,058	
Total	436	36.7%	751	63.3%	1,187	43,250	51.8	40,310	48.2%	83,560	

Source: 2002 and 2003 HMDA Disclosure Statements

While, data relating to the national DHL product is presented because is it reported in accordance with HMDA by Discover Bank; however, since little to no lending of this national loan product is done within the bank’s assessment area, it received no consideration when determining the institution’s CRA lending performance.

The decline in the percentage of the number of home mortgage loans originated inside the assessment area between 2002 and 2003 is attributed in part to purchases made through the WLP. This program is targeted toward purchasing loans originated to low- and moderate-income borrowers within the assessment area and throughout the state. The loan purchase program provides liquidity for the lenders to originate additional loans to low- and moderate-income borrowers. While 58 of the loans purchased in 2003 were inside the assessment area, the majority (115) were from outside the assessment area, but within the State of Delaware. Nonetheless, all the purchased loans represented loans to low- or moderate-income borrowers. Discover Bank has funded \$22 million in WLPs within the State of Delaware. Lending information provided for 2004 shows that as of June 30, 2004, 123 loans totaling \$14.0 million, representing 86.6 and 86.4 percent of loans purchased by number and dollar volume, were inside the assessment area, reflecting a positive trend in the percentage of loans purchased inside the assessment area.

The institution considers its home purchase loan product the key to most effectively addressing affordable housing needs in the assessment area. Of the 436 loans originated/purchased inside the assessment area in 2002 and 2003, 345 or 79.1 percent were home purchase loans. Home refinance lending at 88 loans, represented 20.2 percent of loans originated or purchase; the institution reported only three home improvement loans, representing 0.7 percent of loans originated or purchased during the evaluation period. The number of home purchase loans originated/purchased within the bank’s assessment area reflects its commitment to meeting affordable housing needs; particularly in the current low-interest rate environment during which most lenders have experienced significant increases in home refinance lending.

While the institution’s CRA performance focuses on its retail activities in Southern Delaware, since the credit card portfolio is a substantial majority of the bank’s loan portfolio, the following is presented. The bank originated 3,164,362 credit card accounts in 2002 and 2,265,690 in 2003. Management determined that 880 and 708, representing 0.03 percent of the portfolio for each year, were originated inside the assessment area. This performance is considered adequate, given that the bank is originating credit cards nationally.

Geographic Distribution

Home Mortgage Lending

Refer to Tables 2a, 3a, and 4a in Appendix E for the facts and data used to evaluate the geographic distribution of home mortgage loan originations. The tables detail the geographic distribution of the bank's home purchase, home improvement and home refinance lending for 2002 and 2003. The percentage of owner-occupied housing units by geography and aggregate lending data is shown. An analysis of the geographic distribution of loans by dollar amount revealed similar results.

Overall, the geographic distribution of loans originated/purchased during the evaluation period reflects adequate penetration throughout the assessment area.

2002

As detailed in the Description of the Assessment Area, all nine census tracts in the 2002 assessment area qualified as middle-income. Consequently, all the home mortgage loans originated or purchased inside the assessment area in 2002 were in middle-income census tracts. Given the homogeneous nature of the assessment area, geographic distribution of lending is adequate.

2003

The geographic distribution of loans reflects adequate penetration throughout the assessment area, including moderate-income census tracts. In general, there is limited opportunity for lending in two moderate-income census tracts, which contain only 4.3 percent of the entire assessment area's owner-occupied housing units. Additionally, the two moderate-income census tracts are located in Kent County, which represents a smaller portion of the institution's assessment area and where there is no retail facility.

Home Purchase Lending

The geographic distribution of home purchase loans originated/purchased by Discover Bank in 2003 generally reflects the percentage of owner-occupied housing units within the geographies.

In 2003, the institution originated/purchased six home purchase loans, or 4.6 percent, in moderate-income census tracts. While this performance is similar to the percentage of owner-occupied housing units located in the moderate-income census tracts at 4.3 percent, it is somewhat lower than aggregate at 6.2 percent. Consistent with the make-up of the assessment area, 94.7 percent of home purchase loans originated/purchased were in middle-income census tracts, compared to 94.3 percent of owner-occupied housing units. The institution originated one home purchase loan in an upper-income census tract.

Home Improvement Lending

All three home improvement loans originated in 2003 were in middle-income census tracts.

Home Refinance Lending

The bank originated one home refinance loan, or 2.3 percent, in moderate-income census tracts in 2003, 41 or 95.4 percent in middle- and 1 or 2.3 percent in upper-income census tracts. This distribution is consistent with assessment area demographics. Aggregate data for 2003 shows that 4.5 percent of home refinance loans were in moderate-income census tracts.

Credit Card Lending

Consistent with retail mortgage lending, the majority of credit card loans originated in 2002 and 2003 were in middle-income census tracts. This performance is consistent with assessment area demographics.

Lending to Borrowers of Different Income Levels

Home Mortgage Lending

Refer to Tables 8a, 9a and 10a in Appendix E for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations. The tables detail the distribution of the bank's home purchase, improvement and home refinance loans by borrower income level for 2002 and 2003. For comparison, the distribution of families by income level and aggregate data is shown. An analysis of the distribution of loans to borrowers of different income levels by dollar amount revealed similar results. The following analyses presents the bank's distribution of loans to borrowers of different income levels for home purchase, improvement and refinance loans.

Overall, the distribution of borrowers reflects excellent penetration among borrowers of different income levels.

Home Purchase

During 2002, 22.0 percent of home purchase loans were originated/purchased to low-income borrowers, compared to aggregate at 11.9 percent and the percentage of the assessment area's low-income families at 18.4 percent. The level of lending to moderate-income borrowers during 2002 at 37.9 percent is well above aggregate data at 27.2 percent and also above the percentage of moderate-income families at 17.8 percent. The percentage of home purchase loans originated/purchased to low- and moderate-income borrowers increased to 31.3 and 45.8 percent, respectively, in 2003. The institution's level of lending to low- and moderate-income borrowers compares favorably to 2003 aggregate information which shows that 8.1 and 26.7 percent of loans originated/purchased to low- and moderate-income borrowers, respectively. Over three-fourths of home purchase loans were originated/purchased to low- and moderate-income borrowers in 2003.

Home Improvement

No home improvement loans were originated/purchased in 2002. The institution originated three home improvement loans in 2003, two to middle-income borrowers and one to an upper-income borrower.

Home Refinance

During 2002, 6.7 and 15.6 percent of home refinance loans were originated/purchased to low- and moderate-income borrowers, respectively. This performance is below aggregate at 8.4 and 19.6

percent to low- and moderate-income borrowers, respectively. The level of lending to low- and moderate-income borrowers is also below the percentages of assessment area families that qualify as low- and moderate-income. The percentage of home refinance loans originated to low-income borrowers increased to 18.6 percent in 2003, compared to 6.3 percent for 2003 aggregate. The percentage of loans originated to moderate-income borrowers also increased to 23.3 percent, compared to aggregate at 18.8 percent. Both levels are above the percentage of assessment area families based on 2000 Census data at 19.6 and 20.4 percent, respectively.

Credit Card Lending

Overall, the distribution of credit card loans by borrower income reflects adequate penetration among borrowers of different income levels.

Of the 880 loans originated inside the assessment area 2002, 15.3, 22.7, 23.0, 28.8 percent were originated to low-, moderate-, middle- and upper-income borrowers, respectively. An additional 10.2 percent were originated to borrowers for which income was not considered in the credit decision. Comparatively, based upon 1990 Census data, 23.1, 16.8, 19.7 and 40.4 percent qualify as low-, moderate-, middle- and upper-income, respectively.

Of the 708 loans originated inside the assessment area in 2003, 26.0, 15.1, 18.8 and 23.7 percent were originated to low-, moderate-, middle- and upper-income borrowers, respectively. An additional 16.4 percent were originated to borrower in which income was not considered in the credit decision. Comparatively, based upon 2000 Census data, 23.7, 17.4, 21.4 and 37.5 percent of assessment area households qualify as low-, moderate-, middle- and upper-income, respectively.

Innovative and Flexible Loan Programs

Discover Bank makes use of flexible loan programs to meets assessment area credit needs. Of the 345 home purchase loans originated/purchased inside the assessment area, 213 or 61.7 percent were made using one of the bank’s special credit products.

The following table details the activity in the flexible loan programs for 2002 and 2003.

Table 3 - Innovative or Flexible Lending Practices		
PROGRAM	NUMBER OF LOANS	DOLLAR VOLUME OF LOANS (000s)
Residential Programs:		
Community Loan Fund	160	\$15,418
USDA Leveraged Loan Program	53	\$1,148
Total Residential Loans	213	\$16,898

Source: *Bank Records and Loan Servicing Reports*

Community Loan Fund Program – Loan product developed by Discover Bank to specifically target low- and moderate-income homebuyers within the assessment area. The program provides special pricing and flexible underwriting criteria not available through government programs. Features of the product include: pricing is currently 1 percent below bank’s regular rate, up to 95 percent loan-to-value mortgage loan financing with no private mortgage insurance, borrowers need only provide \$1,000 of their own funds in down payment monies, and a flexible debt-to-income ratio when compared to traditional criteria. The combined loan-to-value can be as high as 105 percent if the Discover Bank loan is combined with a down payment settlement assistance loan from the Delaware State Housing Authority. All borrowers are required to attend homebuyer workshops and counseling sessions. The cost savings afforded the borrower can be significant given, the reduced interest rate and waiving of private mortgage insurance.

USDA Rural Development Leveraged Loan Program – Complex program combines the bank’s financing with a subsidized mortgage from Rural Housing Service for a combined loan-to-value of 102 percent. The USDA seeks partnerships to help leverage the allocated capital from the government to increase affordable homeownership opportunities. Discover Bank is the only bank in the State of Delaware participating in the USDA Rural Development Leveraged Loan Program. This partnership demonstrates the bank’s commitment to serving the low- and moderate-income community. In general, loans originated through the program are small in size, take longer to process and are more expensive to service.

Borrowers for loans secured by mobile/manufactured housing are eligible to participate in the flexible loan programs. Given comments made during community contacts and the significant percentage of assessment area housing units that qualify as mobile/manufactured homes (based upon 2000 Census data), it important that these loan products are available to individuals interested in purchasing a mobile home. The programs are also available to individuals constructing their homes.

Community Development Lending

Discover Bank and MSDCDC provided a relatively high level of community development loans.

MSDCDC provided \$7.5 million in construction loan financing for multi-family construction initiatives and committed \$20 million towards the creation of single-family affordable housing, within the assessment area. One of the MSDCDC’s main objectives was to provide favorable multi-family construction loan financing for the development of affordable rental housing. To that end, financing is being provided for three of only four projects designated for Low-Income Housing Tax Credits in the assessment area. MSDCDC’s financing at \$7.5 million, represents 90 percent of \$8.4 million in total project costs.

Bank management sought out an experienced, local lender to whom to lend capital for the construction of multi-family housing rental projects and aggressively marketed a significantly below market interest rate to Discover Bank’s non-profit housing development partners.

Funding was provided for two projects at a fixed 2 percent rate for 18 months. The following projects received financing:

- 1) A \$3.5 million project to finance the rehabilitation of 13 apartment buildings with a total of 88 units located in census tract 504.02. All units will be rented to families earning less than 50 percent of the median family income.
- 2) A \$1.6 million project to finance the construction of 3 buildings containing 30 apartment units located in census tract 506.02. All units will be rented to families earning less than 50 percent of the median family income.
- 3) A \$3.2 million project to finance the construction of a 36-unit senior housing complex to be rented to seniors who earn less than 30 percent of the adjusted median family income; 41 percent earning less than 50 percent of the adjusted median family income; and 26 percent earning less than 60 percent of the adjusted median family income.

The three housing projects directly address the need for affordable housing identified by community contacts.

In addition to addressing the need for constructing multi-family affordable housing, MSDCDC entered into a \$20 million agreement with another local lender targeted toward promoting single-family affordable housing construction. The facility leverages the bank's below-market rate permanent mortgage loan program (Community Loan Fund Program). The unique and complex agreement will provide permanent financing to support affordable single-family construction lending primarily to borrowers with incomes below 80 percent of the median family income. Applications for loan secured by mobile homes will also be eligible for financing.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

Conclusion:

Discover Bank has an excellent level of qualified community development investments and grants. The bank's effective use of various banking consortiums to facilitate the funding of low-

and moderate-income income housing programs within Delaware and the effective use of Low-Income Housing Tax Credits is representative of the types of complex and innovative approaches to CRA investments that make Discover Bank a leader in the assessment area.

Since the last examination, when investments totaled \$8.2 million, Discover Bank has developed a diverse portfolio of CRA qualified community development investments. The book value of qualified investments carried by Discover Bank (including new and prior period investments) increased from \$11.7 million as of March 31, 2001 to \$23.8 million as of June 30, 2004, or 103.4 percent. Total qualified community development investments and grant activity since the previous evaluation equals \$393.2 million. In addition, still outstanding from the last examination is approximately \$5.0 million in qualified investments as of June 30, 2004. These investments include: Ginnie Mae Mortgage Backed Securities, Delaware State Housing Authority Bonds, US Treasury Bonds, and Sussex County Insured Federal Credit Union certificate of deposit. The Sussex County Credit Union has a low-income community charter and serves persons who live in Sussex County and the City of Milford. The bank has maintained a certificate of deposit of \$100,000 since 1996. For the past eight years over \$34,000 in total grants and interest earned has been donated to the Strong Communities Program, which targets economic development activities toward communities designated by the State of Delaware as severely under-served.

Discover Bank's qualified investments benefit the assessment area and a broader regional area that includes the bank's assessment area. As the bank is adequately meeting the needs of its assessment area, investments that support the creation of affordable, multi-family housing in a nationally are considered

The management of both Morgan Stanley and Discover Bank joined forces to create the Morgan Stanley/Discover Community Development Corporation (MSDCDC), a wholly owned subsidiary of Morgan Stanley. The entity, incorporated in Delaware on August 25, 2003, was created to provide investment capital to low- and moderate-income households and organizations both in the bank's assessment area and Morgan Stanley's nationwide market. Additionally, creating the entity allowed the organization to obtain Community Development Entity (CDE) status to apply for the 2003 round of New Market's Tax Credits (NMTC) from the United States Treasury's Community Development Financial Institution Fund. While the entity was granted a CDE designation, due strong competition, it did not receive an allocation of NMTCs. The creation of the entity demonstrates Discover Bank's willingness to seek solutions to help overcome affordable housing shortages in the assessment area and nationwide. In addition, the bank's allocation of the time and resources necessary to manage such an entity demonstrates a strong commitment to CRA and meeting the needs of the community.

Discover Bank and MSDCDC's investment and grant activity between evaluations is detailed in the following table:

Table 4 - Qualified Investments		
DESCRIPTION	NUMBER	DOLLARS (000s)
Financial Intermediaries	2	11,000
Mortgage Backed Securities	2	5,789
Low-Income Housing Tax Credits	5	371,138
Other Equity	1	2,000
Total Debt or Equity Investments	10	389,927
Not-for-Profit Organizations serving LMI housing or other community development needs	164	2,224
Organizations supporting activities essential to the capacity of LMI individuals and geographies to utilize credit or to sustain economic development	45	613
In-Kind Contributions of Property	1	38
Other Qualified grants and Donations	28	387
Total Qualified Grants and Donations	238	3,262
Grand Total	248	393,189

Source: Bank Records

The following examples of qualified investments demonstrate Discover Bank's responsiveness to community development initiatives:

Investments

Financial Intermediaries

Discover Bank committed \$3.0 million in Delaware Community Investment Corporation's (DCIC) Housing Loan Fund III in July 2002. The funds are used to provide permanent subordinate financing which is critical to affordable multi-family rental housing projects. The project underwriting terms state that the rent structure must include sufficient low-income units to satisfy one of the following three requirements: (1) 51 percent of affordable units to households with incomes of 80 percent or less of the area median income, (2) 40 percent of affordable units to households with income 60 percent or less of the area median income, or (3) 20 percent of affordable units to households with incomes 50 percent or less of the area median income. Of 20 financial institutions providing commitments totaling \$23.7 million, Discover Bank's commitment is one of the highest. JPMorgan Chase Bank committed \$3.9 million and MBNA America Bank, N.A. also committed \$3.0 million. Since closing in July 2002, the fund has provided \$12.9 million in funding and commitments for the development of 395 affordable housing units throughout the State of Delaware. As of June 30, 2004, the fund has \$10.8 million in commitments outstanding.

Discover Bank committed \$8.0 million to DCIC's Tax Credit Equity Fund V Program, of which \$2.0 million has been funded. This fund specifically targets tax credit projects within the State of Delaware. Since its inception in 1994, the fund has invested in eight projects, three of which are in Discover Bank's assessment area. The developments are in full compliance with the tax credit program and help to satisfy the needs of affordable rental housing for low- and moderate-income households. The bank's \$8.0 million commitment represents 15.8 percent of the \$50.5 million in commitments from 13 financial institutions. The bank's commitment matches \$8.0 million commitments from Bank One and MBNA America, N.A., respectively.

Mortgage Backed Securities

Discover Bank invested \$5.8 million in two mortgage backed securities issued by Fannie Mae that exclusively target low- and moderate-income households and tracts within the broader statewide area. The first security, purchased in December 2003, contained 21 loans of which 7 were to low-income borrowers and 14 were to moderate-income borrowers. The second security, purchased in August 2003, contained 40 loans, 7 of which were to low-income borrowers and 30 were to moderate-income borrowers. The 3 loans that were not made to low- and moderate-income applicants were made in low- or moderate-income census tracts. The institution continues to hold Ginnie Mae Mortgage Backed Securities since their purchase in 1996 and 1997. Mortgage backed securities remains an important segment of the bank's CRA investment portfolio and an important funding mechanism for financing various low- and moderate-income housing programs.

Low-Income Housing Tax Credit Projects

Discover Bank committed \$9.9 million to the Municipal Mortgage Acceptance Corporation's Tax Credit Fund XXVI (MMA). This multi-investor fund is providing \$3.4 million in financing

for the rehabilitation of a 76-unit housing complex in Georgetown, Sussex County, Delaware. Seventy nine percent of the units will be rented to families who earn less than 60 percent of the area median income and 21 percent of the units will be rented to families who earn less than 50 percent of the area median income. The property has been subject to moderate but persistent crime over the years mostly due to drug activity. As a part of the rehabilitation, security will be upgraded with the installation of lighting, perimeter fencing, new rear doors and a surveillance system. First State Community Action, a non-profit-human services and housing organization, will provide a part-time resident service coordinator to maintain an on-site office and provide a variety of services for tenants including job referrals, financial literacy education and social service counseling. These services will be provided at no cost to the property or tenants.

The balance of the investment, \$6.5 million, is providing funding for the construction of a 110-unit low- and moderate-income senior citizen housing project in Baltimore, Maryland. Fifty percent of the total units will be for seniors who earn less than 60 percent of the area medium income and 49 percent of the total units will be for seniors who learn less than 50 percent of the area medium income. MMA is a multi-investor that provides funding for various projects throughout the region, including the bank's assessment area.

Discover Bank committed and funded an investment of \$6.0 million in a 188-unit affordable housing rental complex in Baltimore, Maryland through Franklin Capital. This was done through a participation in a multi-investor Low-Income Housing Tax Credit Fund. In addition to Discover Bank financing, the project was funded by other financial institutions, the City of Baltimore and the State of Maryland. All of the units will be reserved for tenants making no more than 50 percent of the area medium income. This project was Discover Bank's first venture into tax credit syndicated funds outside of the State of Delaware, and demonstrated the bank's execution of its strategy to invest regionally when opportunities within the assessment area were not immediately available.

Morgan Stanley became a significant investor in affordable housing in 2002 and 2003. The bank's parent took a leadership role in investing \$355.3 million as a single investor in 100 low-income housing tax credit projects with Paramount Financial Group, Inc. (Paramount). Paramount, a wholly-owned subsidiary of GMAC Commercial Holding Capital Corporation, was formed in 1987 to finance the development of affordable housing nationwide. Over the past 17 years, Paramount has raised over \$1.8 billion in equity from over 670 investors to create over 82,000 housing units. To date, \$9.3 million was invested in three projects located within the broader regional area that includes the bank's assessment area. The three projects were Darby Town in Sharon Hill, Pennsylvania; Providence Housing in Reading, Pennsylvania and Orchard Mews Apartments in Baltimore, Maryland.

Other Equity Investments

Discover Bank invested \$2.0 million in Community Reinvestment Act Preferred Shares issued by Charter Municipal Mortgage Agency Company in October 2003. The shares represent the portion of a revenue bond allocated to Discover Bank, used to finance the construction of Newark Commons, New Castle, Delaware. The project also qualified for Low Income Housing

Tax Credits. The property includes 220 units, 124 or 56 percent are restricted to households with less than 60 percent of the area medium income levels and 24 of the restricted units are reserved for tenants over the age of 55.

Grants

Between 2001 and 2004 Discover Bank awarded a total of 237 monetary grants totaling \$3,223,630 and an in-kind contribution valued at \$38,000. The grants are used to support a wide variety of housing and community development needs and educational and social services. All of the grants are to community groups operating in the assessment area and address the needs of low- and moderate-income individuals and families.

The following table details the number of grants awarded during the evaluation period and the number of organizations served.

<i>Table 5 - Grant Activity</i>			
Year	Number of Grants	Grant Dollars(000s)	Number of Organizations Served
07/01/01-12/31/01	43	617	24
2002	84	946	54
2003	64	841	45
as of 9/30/04	46	820	24
Total	237	3,224	147

Source: Bank Records

The following are examples of grants that demonstrate the bank’s responsiveness to community development initiatives.

The institution made five grants totaling \$559,000 to help fund Milford Housing Development Corporation’s Self-Help Housing Program and the Acquisition/Rehabilitation Program. The Self-Help Housing program offers modular housing to low-income families at below market rates, while the Acquisition/Rehabilitation Program obtains substandard properties which are restored and marketed to low- and moderate-income individuals and families. These programs are instrumental in providing low-income households opportunities for homeownership due to

the rising cost of housing in the assessment area. The grants also funded the organization's Post Occupancy Housing Counseling Program.

Discover Bank made four grants totaling \$250,000 to NCALL, a non-profit organization dedicated to improving the housing conditions of low- and moderate-income individuals and families in rural Sussex and Kent Counties. NCALL provides housing counseling, financial literacy training and also administers a predevelopment loan fund to provide low interest rate loans to non-profit housing developers for such things as appraisals, architectural and engineering services; site reviews and application fees.

Discover Bank provided four grants totaling \$204,748 to Habitat for Humanity of Sussex County to fund its home building and rehabilitation projects in the assessment area. Specifically, the grants were used to purchase tools and equipment to complete four renovated homes in the Georgetown area, and to purchase land for multiple home sites.

The institution made grants totaling \$70,000 to the Interfaith Housing of Delaware, Inc. This grant was used to support a full-time housing counselor position within the City of Milford which is located in a moderate-income census tract. This non-profit organization provides affordable housing and homeownership programs for the low- and moderate-income community.

Discover Bank provided six grants totaling \$116,000 for various initiatives administered by Delmarva Clergy United in Social Action, Inc. The organization is a diverse, faith-based organization that works to develop human potential through summer youth work programs, educational and social services programs in Ellendale, an economically depressed area.

The institution made two donations totaling \$75,000 to the Delmarva Rural Ministries. The organization offers health care, housing advocacy and other community building services to low- and moderate-income farm workers. Part of the donation funded the development of the organization's strategic plan.

Discover Bank made three donations totaling \$120,000 to Housing Capacity Building Program toward their efforts to strengthen organizations in the state that construct, rehabilitate or maintain affordable housing. The Housing Capacity Building Program's mission is to foster and support affordable housing through non-profit housing organizations.

Discover Bank made a \$60,000 grant to the Delaware Technical and Community College. This grant provided assistance low- and moderate-income students attending the college purchase textbooks. The textbooks often cost more than the classes, making the cost of college unattainable for many students. The students voluntarily repaid this assistance by creating an on-going fund for future students' benefit.

The institution made five grants totaling \$51,000 to Delaware Community Foundation. This organization sponsors programs that target healthcare, housing and related initiative throughout the state. The grants provided funding for the after school program, targeting low- and moderate-income students. Additionally, a \$20,000 grant provided the initial capital to help start

the Delaware Community Foundation Fund for Women for Southern Delaware. The organization provides programs targeted to aid low- and moderate-income women in Southern Delaware.

Discover Bank donated \$40,000 to La Esperanza to enable this Hispanic organization to continue to employ a bilingual community immigrant advocate. La Esperanza provides a wide array of services, including immigration assistance, citizenship classes, employment, housing and health care to the growing Sussex County immigrant population.

Discover Bank made a \$35,000 grant to Primeros Pasos, Inc. to help this non-profit organization purchase a building site in Georgetown for a new childcare center. The center will predominately serve the low- and moderate-income Hispanic community.

The institution made three grants totaling \$105,000 to YWCA of New Castle County. The grants provided operations funds for the organization's micro-enterprise development program in Kent and Sussex Counties. The program supports fledgling small and home-based business entrepreneurs, particularly minority- and women-owned.

Discover Bank donated \$20,000 in 2002 to help organize 500 youth to provide free rehab services for 80 homes in Sussex County's most distressed areas.

Discover Bank donated \$51,727 to help the Woodbridge School District purchase an I-Book Wireless Mobile Lab. Recent data shows the Woodbridge School District has the lowest academic test scores within the state. This lab enables the entire school to take advantage of the computer system and ultimately become more technologically educated. This school district is one of the poorest in Delaware with a high percentage of low- and moderate-income students.

Discover Bank donated over \$38,000 in in-kind goods and services to local organizations. These donations include such diverse items as a mail-metering machine and office equipment for an area employment and training program for individuals with disabilities, to financial literacy publications and newspapers for local schools, to homeownership counseling manuals.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the

availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper- income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate- income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

Conclusions :

Retail delivery systems are easily accessible to all portions of the bank's assessment area. Services, including business hours, are tailored to meet the convenience and needs of the assessment area, low- and moderate-income individuals. Discover Bank is a leader in providing community development services.

Retail Banking Services

Accessibility of Delivery Systems

Discover Bank's delivery systems are readily accessible to all portions of the assessment area, including low- and moderate- income households. The bank operates one full-service office in a middle- income census tract in Greenwood, Sussex County, Delaware.

Alternate Delivery Systems

Discover Bank offers a few alternate delivery systems, all of which are reasonably accessible to low- and moderate- income households in its assessment area. An automated teller machine (ATM) is available at the Greenwood office. The ATM was recently upgraded to make it Spanish-language capable for the significant Hispanic population in the area. The ATM card is also accepted for point-of-sale purchases. Customers can access account balance information and transfer funds using Bank-by-Phone.

Changes in Branch Locations

There has been no change in branch locations since the last compliance examination.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Retail banking services, including business hours, are tailored to the convenience and needs of the assessment area. The bank lobby is open for business Monday through Wednesday from 9:00 a.m. to 3:00 p.m., Thursday from 9:00 a.m. to 5:00 p.m., and Friday 9:00 a.m. to 6:00 p.m. The drive-through service is open Monday through Thursday 8:30 a.m. to 5:30 p.m., Friday 8:30

a.m. to 6:00 p.m., and Saturdays from 9:00 a.m. to 1 p.m. The bank's lobby hours are among the most convenient in the area, while its Saturday hours are the longest in the assessment area. Management extended hours of operation between evaluations based on information derived from a survey conducted relating to how better meet the retail needs of the assessment area.

To better serve the low- and moderate-income community, a checking account maybe opened with as little as \$20. These requirements are among the lowest in the area. Additionally, non-profits are offered the highest money market rates for deposits of any amount. The institution cashes government checks for no fee for customers and non-customers alike.

Discover Bank aggressively advertises its retail services through coordinated print and radio campaigns. These campaigns are changed on a monthly basis in order to assure that a full range of products and services are brought into public awareness. The bank reaches out to the Hispanic community with Spanish-language advertisements both in print and on the radio. Two full-time Spanish-speaking employees are on staff to assist Spanish-speaking customers when needed.

Community Development Services

Discover Bank is a leader in providing community development services within the bank's assessment area. The bank has a full-time CRA Director who oversees a department dedicated to assuring that the bank's community development efforts have the maximum impact in the area. Towards this end, the CRA Director meets with community leaders and organizations on an ongoing basis. In May 2004, Discover Bank created the position of CRA Administrator to further enhance its community outreach. The management level individual hired for this position is also a bi-lingual Hispanic, further demonstrating Discover Bank's commitment to serve every segment of its assessment area's population.

Several of the bank's community development services directly respond to issues identified during community contacts with Sussex County community development, social services and affordable housing agencies as in need of assistance. For example, the bank played a leadership role in providing financial education to the low- and moderate-income youth and Hispanic population, has been actively involved in improving overcrowded living conditions, and has worked toward improving the quality of life in two low-income neighborhoods: Ellendale and Coverdale Crossroads.

The following details Discover Bank's more significant community development services, including those that demonstrate the bank's leadership role in the community:

- The bank's CRA Director served on the board of the Consumer Credit Counseling Service (CCCS), a non-profit organization, in a key leadership role. Through his involvement in an ad-hoc committee, which he formed and chaired, the CCCS expanded its services to providing both credit and homeownership counseling. As a result of

DiscoverBank's involvement, the organization received HUD approval to provide both pre- and post home-buying counseling services. This was the first consumer credit counseling service in the nation to attempt both pre- and post-counseling services, and has since become a model among other consumer credit counseling associations.

- The CRA Administrator was instrumental in developing a program geared toward alleviating the overcrowded living conditions experienced by poultry workers in Georgetown, Sussex County. Working with The Sussex Housing Group and county officials concerned with substandard and overcrowded housing in Sussex County, a single room occupancy housing project was launched. The project, which involved renovating an existing structure into a dormitory style setting, will alleviate some of the overcrowded housing conditions caused by the influx of young Hispanic males working in the poultry industry. This is the first single occupancy housing project in Georgetown and directly addresses an area raised during the community contacts as a need.
- Through participation on the Fund for Economic Independence Board, the CRA Director was able to help champion the Delaware Saves Individual Development Account (IDA) program, serving as a representative of the initiative to other banks. Discover Bank was one of the two initial financial supporters of this program, and through their leadership and networking, Discover Bank was able to persuade other banks to join in the effort to provide matching funds to low-income individuals saving for down payments on homes.
- Discover Bank played a key role in allowing for low- and moderate-income individuals and families in Kent and Sussex Counties to take advantage of the Federal Earned Income Tax Credit. The CRA Director worked with the Nehemiah Gateway Community Development Corporation in 2003 to provide free tax preparation, open savings accounts and provide referrals to services that could help individuals become financially self-sufficient. In 2003, state and federal tax returns were prepared for 600 low-income workers. The bank funded the program and provided volunteers to assist with tax preparation. In the last two years, large segments of the underserved population have received over \$1.8 million in tax refunds with through a program that would have been non-existent without Discover Bank's support.
- The bank's CRA Administrator is assisting the Delmarva Clergy United for Social Action (DCUSA) by heading a capital campaign to produce 14 units of affordable housing. DCUSA's mission is to improve the lives of those afflicted by poverty. This non-profit organization offers a wide array of social services for people living in rural Ellendale, Sussex County. Ellendale is plagued by a high level of substandard living conditions and high rates of poverty among residents. Discover Bank has also been an active financial supporter of DCUSA.

- Discover Bank's CRA Administrator is presently working to revive an initiative in neighborhoods identified by former Governor Carper as Strong Communities. The program was started to dedicate state resources to areas in Sussex County identified as having pockets of poverty. State assistance is no longer available and the challenges in these communities remain the same. Discover Bank helped finance and give direction to a study, conducted by Delaware State University, to get a better understanding of one Strong Community known as Coverdale Crossroads. A detailed report now exists that describes the demographics of this particular community and outlines community needs as described by residents. Discover Bank's CRA Administrator is assisting in developing an action plan that will be inclusive of community members' input.

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- The CRA Director ascertained a need for more intensive customer service training for the homeownership counseling staff at NCALL. The bank provided NCALL with two full-time personnel for a day of extensive customer training. The class was attended by NCALL staff and management. The CRA Director also served on the organization's board.

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- Discover Bank's CRA Administrator is part of the planning team for the Sussex County Today and Tomorrow Conference sponsored by Delaware Technical and Community College. The event brings together industry, public policy officials, and community leaders to discuss challenges affecting Sussex County. This year's agenda will focus on the need for affordable housing, economic development and healthcare.
- Live Near Your Work is a cooperative initiative with the Delaware State Housing Authority through which the bank contributes \$1,000 to assist low- and moderate-income borrowers with down payment and settlement costs in Georgetown, Sussex County. Discover Bank's \$1,000 matches a \$1,000 grant from the state, \$1,000 from the Town of Georgetown and \$1,000 from a Georgetown employer. The initiative is working to increase homeownership in this moderate-income area. The CRA Administrator is working to expand the program by contacting businesses in the area.
- Discover Bank's CRA Administrator was recently appointed Chairman of the Governor's Advisory Council on Hispanic Affairs by Delaware's Governor Ruth Ann Minner. The CRA Administrator convenes council meetings throughout the state and meets with advocacy groups in order to develop an agenda to address issues affecting the Hispanic Community.
- Discover Bank formed an active partnership with Junior Achievement (JA) in 1995. Bank volunteers bring real-life business experience into the schools focusing on economics, personal finance, business and entrepreneurship and work preparation. In the 2002 and 2003 school year, Discover Bank volunteers facilitated 29 classes, donating 348 hours and impacting approximately 870 children. In 2003 and 2004 school year, Discover Bank facilitated 22 classes. Additionally, in 2003, Discover Bank was a Platinum Sponsor and contributed \$5,000 for program support. Discover Bank's President and Chief Operating Officer, serves on the organization's board of directors.

- To promote financial literacy, Good Cents, a personal finance program for 7th and 8th grade students, is a subsidiary of the Communities in Schools, Inc. organization. A computer-based simulation, facilitated by Discover Bank employees, entitled The Finance Center, prepares students in the subjects of personal finance, budgeting, money management, saving and investing. The program has benefited over 350 students, since being piloted by Discover Bank employees in Delaware in 2002.
- The CRA Director worked with the Wilmington Urban League to bring their innovative Parents School to Southern Delaware. This program educates low- and moderate-income parents about the importance of education. Discover Bank funded the program in the Woodbridge School District, the most economically disadvantaged district in Delaware with some of the state's lowest test scores.
- Finanzas Literacy Program is a financial literacy program developed in cooperation with NCALL Research, Perdue Farms, Inc, Fannie Mae, and Citizens Bank. The program offers 12 hours of instruction in Spanish in a culturally sensitive manner. Employees working in the poultry industry are paid to attend classes at their place of employment. Discover Bank's CRA Administrator is assisting by expanding the program to other companies and helping to raise needed funds for a full time financial literacy instructor.
- Discover Bank sponsors and organizes a day-long college finance orientation session to discuss the Foundations Low- and Moderate-Income Scholarship Program. The scholarship program was developed and administered solely by Discover Bank to provide high school seniors from low- and moderate-income communities with opportunities for higher education. The scholarship is available to high school seniors residing in one of the Sussex County Strong Communities or other eligible communities, who have been accepted or applied to an institution of higher education. Since its inception in 1996, 81 students have received \$382,850 in scholarships, with 39 students awarded \$140,075 between CRA evaluations. A large number of recipients would not have been able to attend college without the Foundation Scholarship. In 2001 the scholarship was expanded to allow previous recipients to receive additional alumni scholarship funds to continue their education. Since then, 17 alumni have received an additional \$31,425 in scholarship monies.

APPENDIX A

SCOPE OF EXAMINATION:

Discover Bank
SCOPE OF EXAMINATION: The scope of the review included an evaluation of the bank's lending, investment and service activities.
TIME PERIOD REVIEWED: June 19, 2001 to September 30, 2004.
PRODUCTS REVIEWED: Loan reported pursuant to Home Mortgage Disclosure, credit card originations and community development loans.

LIST OF AFFILIATES AND PRODUCTS REVIEWED		
AFFILIATE(S):	AFFILIATE RELATIONSHIP:	PRODUCTS REVIEWED:
Morgan Stanley (Morgan Stanley/Discover Community Development Corporation)	Parent	Community Development Loans and Investments

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA:	TYPE OF EXAMINATION:	BRANCHES VISITED:	OTHER INFORMATION:
Sussex County	Full-Scope	1	
Kent County	Full-Scope	0	

APPENDIX B - GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural

classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX C - INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate- income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

APPENDIX D – DEMOGRAPHIC DATA

Sussex County/1990 Census

Demographic Information for Full Scope Area: Sussex County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	5	0.00	0.00	100.00	0.00	0.00
Population by Geography	47,616	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	13,470	0.00	0.00	100.00	0.00	0.00
Business by Geography	52	0.00	0.00	100.00	0.00	0.00
Farms by Geography	8	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	13,077	17.03	17.54	24.89	40.54	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	4,521	0.00	0.00	100.00	0.00	0.00
Median Family Income		31,112	Median Housing Value		68,895	
HUD Adjusted Median Family Income for 2002		49,700	Unemployment Rate (1990 US Census)		2.06%	
Households Below Poverty Level		12.12%				

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 1990 US Census and 2002 HUD updated MFI

Kent County/1990 Census

Demographic Information for Full Scope Area: Kent County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	0.00	0.00	100.00	0.00	0.00
Population by Geography	11,878	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	3,065	0.00	0.00	100.00	0.00	0.00
Business by Geography	803	0.00	0.00	100.00	0.00	0.00
Farms by Geography	78	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	3,172	24.12	19.07	24.68	32.12	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,370	0.00	0.00	100.00	0.00	0.00
Median Family Income		33,594	Median Housing Value		66,295	
HUD Adjusted Median Family Income for 2002		52,100	Unemployment Rate (1990 US Census)		2.24%	
Households Below Poverty Level		17.08%				

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 1990 US Census and 2002 HUD updated MFI

Sussex County/2000 Census

Demographic Information for Full Scope Area: Sussex Count						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	24	0.00	0.00	100.00	0.00	0.00
Population by Geography	110,875	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	33,078	0.00	0.00	100.00	0.00	0.00
Business by Geography	5,055	0.00	0.00	100.00	0.00	0.00
Farms by Geography	366	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	30,445	19.50	20.38	24.48	35.63	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	12,142	0.00	0.00	100.00	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2003 Households Below Poverty Level		45,190 51,700 11.02%	Median Housing Value Unemployment Rate (2000 US Census)		89,109 2.39%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2003 HUD updated MFI

Kent County/2000 Census

Demographic Information for Full Scope Area: Kent County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	8	0.00	25.00	62.50	12.50	0.00
Population by Geography	24,631	0.00	30.07	61.37	8.56	0.00
Owner-Occupied Housing by Geography	7,055	0.00	24.59	67.29	8.12	0.00
Business by Geography	1,339	0.00	47.35	36.97	15.68	0.00
Farms by Geography	143	0.00	15.38	74.13	10.49	0.00
Family Distribution by Income Level	6,859	19.90	20.66	25.46	33.98	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,782	0.00	38.82	54.49	6.69	0.00
Median Family Income HUD Adjusted Median Family Income for 2003 Households Below Poverty Level		46,506 53,200 10.6%	Median Housing Value Unemployment Rate (2000 US Census)		96,614 2.15%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2003 HUD updated MFI

APPENDIX E – TABLES OF PERFORMANCE DATA

Content of Standardized Tables

The FFIEC has adopted a standard set of data tables, sequentially numbered 1-15, for use in every Large Bank CRA Public Evaluation. Any tables not included in this Public Evaluation were excluded because the institution has not originated or purchased any loans in the relevant category during the period under review or did not elect to report consumer loan data.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** – Presents the number and dollar amount of reportable loans originated and purchased by the institution and its affiliates, if applicable, over the entire evaluation period by assessment area.
- Table 1. Other Products** – Presents the number and dollar amount of any unreported category of loans originated and purchased by the institution and its affiliates, if applicable, also being considered during the CRA evaluation.
- Table 2a. Geographic Distribution of Home Purchase Loans** – Compares the percentage distribution of the number of loans originated and purchased by the institution in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate market information based on the most recent data available.
- Table 3a. Geographic Distribution of Home Improvement Loans**
- Table 4a. Geographic Distribution of Home Mortgage Refinance Loans**
- Table 5a. Geographic Distribution of Multifamily Loans**
- Table 6a. Geographic Distribution of Small Loans to Businesses** – Shows the percentage distribution of the number of small loans (less than or equal to \$1.0 million) to businesses originated and purchased by the institution and its affiliates, if applicable, in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents aggregate market information based on the most recent data available.
- Table 7a. Geographic Distribution of Small Loans to Farms** – Shows the percentage distribution of the number of small loans (less than or equal to \$500 thousand) to farms originated and purchased by the institution and its affiliates, if applicable, in low-, moderate-, middle-, and upper-income geographies compared with the percentage distribution of farms (regardless of revenue size) throughout those

geographies. The table also presents market share information based on the most recent aggregate market data available.

Table 8a. Borrower Distribution of Home Purchase Loans – Compares the percentage distribution of the number of loans originated and purchased by the institution and its affiliates, if applicable, to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each assessment area. The table also presents the most recent aggregate market data available.

Table 9a. Borrower Distribution of Home Improvement Loans

Table 10a. Borrower Distribution of Home Mortgage Refinance Loans

Table 11a. Borrower Distribution of Small Loans to Businesses – Compares the percentage distribution of the number of small loans (less than or equal to \$1.0 million; for farms, less than or equal to \$500 thousand) originated and purchased by the institution and its affiliates, if applicable, to businesses or farms with revenues of \$1.0 million or less to the percentage distribution of businesses or farms with revenues of \$1.0 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank and its affiliates, if applicable, by loan size, regardless of the revenue size of the business or farm. The most recent aggregate market data available is also shown.

Table 12a. Borrower Distribution of Small Loans to Farms.

Table 13. Geographic and Borrower Distribution of Consumer Loans – For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the institution and its affiliates, if applicable, in low-, moderate-, middle-, and upper-income geographies with the percentage distribution of households within each geography. For borrower distribution, compares the percentage distribution of the number of loans originated and purchased by the institution and its affiliates, if applicable, to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each assessment area.

Table 14. Qualified Investments – Presents the number and dollar amount of qualified investments made by the institution and its affiliates, if applicable, in each assessment area. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior period investments are reflected at their book value as of the end of the evaluation period. The table also presents the number and dollar amount of unfunded qualified investment commitments.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings – Compares the percentage distribution of the number of the institution’s branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population residing in each geography in each assessment area. The table also presents data on branch openings and closings in each assessment area.

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Table 1. Lending Volume

LENDING VOLUME		Geography: DISCOVER BANK				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002						
MA/Assessment Area (2002):	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Full Review:												
Kent County	16.28	42	4,396	0	0	0	0	0	0	42	4,396	0.00
Sussex County	83.72	217	22,954	0	0	0	0	0	0	217	22,954	100.00

LENDING VOLUME		Geography: DISCOVER BANK				Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003						
MA/Assessment Area (2003):	% of Rated Area Loans (#) in MA/AA**	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans****		Total Reported Loans		% of Rated Area Deposits in MA/AA****
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Full Review:												
Kent County	20.90	37	2,816	0	0	0	0	0	0	37	2,816	0.00
Sussex County	79.10	140	13,084	0	0	0	0	4	27,500	144	40,584	100.00

* Loan Data as of December 31, 2002. Rated area refers to either the state or multi-state MA rating area.
 ** The evaluation period for Community Development Loans is From June 19, 2001 to September 30, 2004.
 *** Deposit Data as of June 30, 2004. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.
 **** Loan Data as of December 31, 2003. Rated area refers to either the state or multi-state MA rating area.
 ***** Reflects community development lending through Morgan Stanley/Discover Community Development Corporation.
 ***** Deposit Data as of June 30, 2003. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

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Table 1. Other Products

LENDING VOLUME														
Geography: DISCOVER BANK														
Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002														
MA/Assessment Area (2002): Full Review:	% of Rated Area Loans (#) in MA/AA*	Total Optional Loans		Small Business Real Estate		Home Equity**		Motor Vehicle**		Credit Card*		Other Secured Consumer**		% of Rated Area Deposits in MA/AA***
		#	\$(000's)	# Secured	\$(000's)	#	\$(000's)	#	\$(000's)	#	\$(000's)	#	\$(000's)	
Kent County	35.7	0	0	0	0	0	0	0	0	314	1,727	0	0	0.00
Sussex County	64.3	0	0	0	0	0	0	0	0	566	3,144	0	0	100.00

LENDING VOLUME														
Geography: DISCOVER BANK														
Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003														
MA/Assessment Area (2003): Full Review:	% of Rated Area Loans (#) in MA/AA**	Total Optional Loans		Small Business Real Estate		Home Equity****		Motor Vehicle****		Credit Card****		Other Secured Consumer****		% of Rated Area Deposits in MA/AA****
		#	\$(000's)	# Secured	\$(000's)	#	\$(000's)	#	\$(000's)	#	\$(000's)	#	\$(000's)	
Kent County	32.2	0	0	0	0	0	0	0	0	228	1,184	0	0	0.00
Sussex County	67.8	0	0	0	0	0	0	0	0	480	2,577	0	0	100.00

* Loan Data as of December 31, 2002. Rated area refers to either the state or multi-state MA rating area.

** The evaluation period for Optional Product Line(s) is From January 01, 2002 to December 31, 2002.

*** Deposit Data as of June 30, 2004. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**** Loan Data as of December 31, 2003. Rated area refers to either the state or multi-state MA rating area.

***** The evaluation period for Optional Product Line(s) is From January 01, 2003 to December 31, 2003.

***** Deposit Data as of June 30, 2003. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

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Table 1. Other Products

LENDING VOLUME		Geography: DISCOVER BANK		Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002	
MA/Assessment Area (2002):	Other Unsecured Consumer Loans*		Other Optional Loans*		
	#	\$ (000's)	#	\$ (000's)	
Full Review:					
Kent County	0	0	0	0	0
Sussex County	0	0	0	0	0

LENDING VOLUME		Geography: DISCOVER BANK		Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003	
MA/Assessment Area (2003):	Other Unsecured Consumer Loans**		Other Optional Loans**		
	#	\$ (000's)	#	\$ (000's)	
Full Review:					
Kent County	0	0	0	0	0
Sussex County	0	0	0	0	0

* The evaluation period for Optional Product Line(s) is From January 01, 2002 to December 31, 2002.

**The evaluation period for Optional Product Line(s) is From January 01, 2003 to December 31, 2003.

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Table2a. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE		Geography: DISCOVER BANK				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Kent County	35	16.36	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00
Sussex County	179	83.64	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00

Geographic Distribution: HOME PURCHASE		Geography: DISCOVER BANK				Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003								
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income***			
	#	% of Total****	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Kent County	30	22.90	0.00	0.00	24.59	20.00	67.29	76.67	8.12	3.33	0.00	26.91	66.25	6.84
Sussex County	101	77.10	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00

* Based on 2002 Peer Mortgage Data: US and PR.

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.

**** Based on 2003 Peer Mortgage Data: US and PR.

***** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

***** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

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Table 3a. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT		Geography: DISCOVER BANK					Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002							
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Kent County	0	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00
Sussex County	0	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00

Geographic Distribution: HOME IMPROVEMENT		Geography: DISCOVER BANK					Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003							
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income***			
	#	% of Total****	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Kent County	1	33.33	0.00	0.00	24.59	0.00	67.29	100.00	8.12	0.00	0.00	23.74	62.59	13.67
Sussex County	2	66.67	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00

* Based on 2002 Peer Mortgage Data: US and PR.

** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

**** Based on 2003 Peer Mortgage Data: US and PR.

***** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

***** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 2000 Census information.

Institution ID: 5649

Table 4a. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE		Geography: DISCOVER BANK						Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002						
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Kent County	7	15.56	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00
Sussex County	38	84.44	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00

Geographic Distribution: HOME MORTGAGE REFINANCE		Geography: DISCOVER BANK						Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003						
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income****			
	#	% of Total****	% Owner Occ Units****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	% Owner Occ Units*****	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Kent County	6	13.95	0.00	0.00	24.59	16.67	67.29	66.67	8.12	16.67	0.00	23.77	65.60	10.63
Sussex County	37	86.05	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00

* Based on 2002 Peer Mortgage Data: US and PR.

** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

****Based on 2003 Peer Mortgage Data: US and PR.

***** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

*****Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 2000 Census information.

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Table 5a. Geographic Distribution of Multifamily Loans

Geographic Distribution: MULTIFAMILY		Geography: DISCOVER BANK					Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002							
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Sussex County	0	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kent County	0	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Geographic Distribution: MULTIFAMILY		Geography: DISCOVER BANK					Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003							
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income****			
	#	% of Total**	% of MF Units*****	% BANK Loans	% MF Units*****	% BANK Loans	% MF Units*****	% BANK Loans	% MF Units*****	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
Sussex County	0	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00
Kent County	0	0.00	0.00	0.00	80.65	0.00	6.65	0.00	12.70	0.00	0.00	100.00	0.00	0.00

* Based on 2002 Peer Mortgage Data: US and PR.

** Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

*** Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information.

**** Based on 2003 Mortgage Peer Data: US and PR.

***** Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

***** Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 2000 Census information.

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Table 8a. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		Geography: DISCOVERBANK					Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002							
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Low	Mod	Mid	Upp
Full Review:														
Kent County	35	16.36	24.12	25.71	19.07	40.00	24.68	14.29	32.12	20.00	11.66	27.80	30.04	30.49
Sussex County	179	83.64	17.03	21.23	17.54	37.43	24.89	22.34	40.54	19.00	11.91	27.02	28.81	32.27

Borrower Distribution: HOME PURCHASE		Geography: DISCOVER BANK					Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003							
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*****			
	#	% of Total*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	Low	Mod	Mid	Upp
Full Review:														
Kent County	30	22.90	19.90	40.00	20.66	50.00	25.46	10.00	33.98	0.00	8.14	29.66	32.19	30.02
Sussex County	101	77.10	19.50	28.71	20.38	44.55	24.48	13.86	35.63	12.87	8.13	25.88	26.65	39.34

* Based on 2002 Peer Mortgage Data: US and PR.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

***** Based on 2003 Peer Mortgage Data: US and PR.

**** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

***** Percentage of Families is based on the 2000 Census information.

***** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

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Table 9a. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT														Geography: DISCOVER BANK				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002									
MA/Assessment Area:	Total Home Improvement		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*																
	#	Loan% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Low	Mod	Mid	Upp													
Full Review:																											
Kent County	0	0.00	24.12	0.00	19.07	0.00	24.68	0.00	32.12	0.00	21.33	24.00	29.33	25.33													
Sussex County	0	0.00	17.03	0.00	17.54	0.00	24.89	0.00	40.54	0.00	11.66	25.56	26.01	36.77													

Borrower Distribution: HOME IMPROVEMENT														Geography: DISCOVER BANK				Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003									
MA/Assessment Area:	Total Home Improvement		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data *****																
	#	Loan% of Total *****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	Low	Mod	Mid	Upp													
Full Review:																											
Kent County	1	33.33	19.90	0.00	20.66	0.00	25.46	100.00	33.98	0.00	14.07	22.22	26.67	37.04													
Sussex County	2	66.67	19.50	0.00	20.38	0.00	24.48	50.00	35.63	50.00	16.14	20.59	27.60	35.67													

* Based on 2002 Peer Mortgage Data: US and PR.

** As a percentage of loans with borrower income information available. No information was available for *****% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

***** Based on 2003 Peer Mortgage Data: US and PR.

***** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

***** Percentage of Families is based on the 2000 Census information.

***** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

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Table 10a. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: DISCOVER BANK						Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002						
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low -Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Low	Mod	Mid	Upp
Full Review:														
Kent County	7	15.56	24.12	42.86	19.07	14.29	24.68	42.86	32.12	0.00	9.06	17.48	32.04	41.42
Sussex County	38	84.44	17.03	0.00	17.54	15.79	24.89	39.47	40.54	44.74	8.26	20.09	29.28	42.37

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: DISCOVER BANK						Evaluation Period: JANUARY 1, 2003 TO DECEMBER 31, 2003						
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low -Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*****			
	#	% of Total*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	% Families*****	% BANK Loans*****	Low	Mod	Mid	Upp
Full Review:														
Kent County	6	13.95	19.90	0.00	20.66	66.67	25.46	33.33	33.98	0.00	6.75	18.97	31.40	42.87
Sussex County	37	86.05	19.50	21.62	20.38	16.22	24.48	32.43	35.63	29.73	6.23	18.80	31.19	43.78

* Based on 2002 Peer Mortgage Data: US and PR.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

***** Based on 2003 Peer Mortgage Data: US and PR.

***** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

***** Percentage of Families is based on the 2000 Census information.

***** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

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Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: DISCOVER BANK				Evaluation Period: JULY 1, 2001 TO September 30, 2004			Unfunded Commitments**	
MA/Assessment Area:	Prior Period Investments *		Current Period Investments		Total Investments					
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)	
Full Review:										
Assessment Area	9	4,963	245	37,938	254	42,901	10.8	3	15,014	
Regional Area/MSDCDC	0	0	2	9,344	2	9,344	2.3	0	0	
National Area/MSDCDC	0	0	1	345,907	1	345,907	86.9	0	0	

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

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Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS																	
Geography: DISCOVER BANK																	
Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full Review:																	
Sussex County	100.00	1	100	0.00	0.00	100.00	0.00	0	0	0	0	0	0	0.00	0.00	100.00	0.00

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Distribution of Branch and ATM Delivery System

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM			Geography: DISCOVER BANK					Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2002									
MA/Assessment Area:	Deposits	Branches						ATMs				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	Location of Branches by Income of Geographies (%)				# of ATMs	% of Total Bank ATMs	Location of ATMs by Income of Geographies				% of Population within Each Geography				
		Low	Mod	Mid	Upp	Low			Mod	Mid	Upp	Low	Mod	Mid	Upp		
Full Review:																	
Sussex County	100.00	1	100	0.00	0.00	100.00	0.00	1	100.00	0	0	1	0	0.00	0.00	100.00	0.00