

PUBLIC DISCLOSURE

June 18, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Felton Bank
12700**

**120 West Main Street
Felton, Delaware 19943**

**Federal Deposit Insurance Corporation
20 Exchange Place
New York, NY 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 **The Felton Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **June 18, 2003**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory based upon the following:

- The average net loan-to-deposit ratio reflects an adequate responsiveness to assessment area credit needs.
- A majority of loans by number and dollar volume were originated inside the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

The Felton Bank (FB) has been in operation since 1917. The institution's main office is located in Felton, Delaware, and the branch is located in Milford, Delaware, about 13 miles southeast of the main office. The bank is owned by a one bank holding company, Midstate Bancorp, Inc., located in Felton, Delaware.

Based upon the March 31, 2003, CALL Report, assets totaled \$47,392,000; loans totaled \$28,053,000, and deposits totaled \$43,471,000. Of the real estate secured loans, 1-4 family residential totaled \$11,945,000 or 42.6 percent, commercial totaled \$7,202,000 or 25.7 percent, construction and land development totaled \$3,268,000 or 11.6 percent, loans secured by farmland totaled \$1,251,000 or 4.4 percent and multi-family residential totaled \$422,000 or 1.5 percent. Of the non-real estate secured loans, commercial and industrial totaled \$2,716,000, Consumer loans totaled \$643,000 or 2.3 percent, agricultural loans totaled \$30,000 or 0.1 percent and other loans totaled \$668,000 or 2.4 percent. Deposit products offered by the bank include various types of consumer and business checking, NOW accounts, statement savings, IRA and Christmas club savings, money market, and certificates of deposit. Table 1 details the distribution of the bank's loan portfolio as of March 31, 2003.

Table 1 - Loan Distribution as of 03/31/2003		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	3,268	11.6
Secured by Farmland	1,251	4.4
1-4 Family Residential	11,945	42.6
Multi-Family (5 or more) Residential	422	1.5
Commercial	7,202	25.7
Total Real Estate Loans	24,088	85.80
Commercial and Industrial	2,716	9.7
Agricultural	30	0.1
Consumer	643	2.3
Other	668	2.4
Less: Unearned Income	92	0.3
Total Loans	28,053	100.0

Source: Report of Condition

The main office and the branch are both located in middle-income census tracts. No offices have been opened or closed between evaluations. Monday to Thursday the lobby is open from 9:00 a.m. to 3:00 p.m. On Fridays the bank lobby is open from 8:30 a.m. to 5:00 p.m. The drive through teller window is open Monday to Thursday from 8:30 a.m. to 5:00 p.m. The drive through teller window is open from 8:30 a.m. until 6:00 p.m. on Fridays. The bank's hours of operation are considered reasonable. Both the main office and the branch have drive through window teller services.

No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community. The previous CRA Performance Evaluation conducted as of July 13, 1998, assigned a rating of "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires an institution to define an assessment area within which the bank will concentrate its CRA activities and lending efforts. The Federal Deposit Insurance Corporation (FDIC) evaluates the institution’s CRA performance based on the defined assessment area.

The institution’s assessment area consists of portions of Kent and Sussex Counties in Delaware. The assessment area does not reflect illegal discrimination or arbitrarily exclude any low- or moderate-income area.

The institution’s assessment area consists of 22 census tracts 13 of which are in Kent County and 9 are in Sussex County. Kent County is located in the Dover MSA 2190 and Sussex County is located in the non-metropolitan statistical area of Delaware. Of the 22 census tracts, 17 are middle-income, 1 is moderate-income, 1 is upper-income and 3 are geographic anomalies; meaning no income or economic data is available for these census tracts. They have been designated geographic anomalies for the following reasons. Census tract 509.00 is marshland and consists of the Prime Hook Nature Preserve. Census tracts 510.00 and 511.00 represent the area occupied by a U.S. Coast Guard Base and a U.S. Army Reserve Base. Also, only 232 families or 0.9 percent of all families living in FB’s assessment area live in the moderate-income census tract. The reason for this is that Delaware State University occupies most of that moderate-income census tract.

Table 2 - Selected Housing Characteristics by Income Category of the Geography									
Geographic Income Category	Percentage						Median		
	Census Tracts	Total Families	Housing Units	Owner- Occupied	Rental Units	Vacant Units	Age*	Home Value*	Gross Rent**
Low	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0
Moderate	4.6	0.9	1.3	1.0	1.1	3.3	16	75,000	15
Middle	77.3	97.5	97.2	97.2	97.7	96.2	20	73,317	234
Upper	4.5	1.6	1.5	1.8	1.2	0.5	17	98,300	25
\$0/NA Income	13.6	0.0	0.0	0.0	0.0	0.0	0	0	0
Total or Median ***	100	100	100	100	100	100	20	73,721	229

*Source: U.S. Census, * - Owner-Occupied Units, ** - Renter-Occupied Units, *** - Total Percentage may not add to 100 due to rounding.*

The selected housing characteristics by income category for FB's assessment area, as described in the table above, strongly indicates that the overwhelming majority of the population live in the middle-income geography to include all of the low-income families. Of the 26,980 families living in the assessment area, 4,994 or 18.5 percent are low-income, 4,873 or 18.1 percent are moderate-income, 6,779 or 25.1 are middle-income and 10,334 or 38.3 percent are upper-income. The assessment area's major employers include Perdue Farms, Inc., Townsend's Inc., Kent General Hospital, and Kraft Foods, Inc. Also, southern Delaware's Rehoboth, Dewey, and Lewes Beaches also provide temporary employment opportunities during the summer vacation months.

As part of the examination, a community contact interview was held. Community contacts provide a third-party perspective on the community development opportunities in the assessment area and the performance of local financial institutions in helping meet the assessment area's credit and community development needs. A community contact interview was held with a local non-profit, housing development organization. The Deputy Director of the organization stated that FB tries to support his organizations efforts to provide decent, safe and affordable housing opportunities for the citizens of Kent and Sussex Counties, many of whom are low- and moderate-income. The Deputy Director stated that a few years ago FB provided reasonable financing which enabled his organization to purchase, renovate, and provide rental housing in a ten-unit apartment building for mixed-income individuals in Milford, Delaware which is the community where FB's branch is located.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of the Evaluation

The small bank CRA evaluation procedures, which incorporate the five performance standards, will be used at this examination. The CRA evaluation period will cover 2001 and 2002. The institution's lending performance will be based on a review of home mortgage loans and small business loans originated. The bank is a Home Mortgage Disclosure Act (HMDA) reporter and the loan data for years 2001 and 2002 will be utilized for analyzing the bank's home mortgage loans. CRA loan data is not maintained by the bank for its' small business loans.

For this reason, sampling will be used. FB originated 60 small business loans in 2001 and 97 in 2002. A sample size with a 15 percent precision of 31 small business loans was utilized for both 2001 and 2002.

Loan-to-Deposit Ratio

FB's average net loan-to-deposit ratio appears adequate considering the institution's performance context. The bank's average net loan-to-deposit ratio, which is based on the 19 quarters since the last CRA evaluation, is 68.3 percent. FB does not participate in secondary market loan sales and both loans and deposits over the 19 quarters have been relatively flat, showing no appreciable increase in either. FB compares favorably with another similarly situated bank that has an average net loan-to-deposit ratio for the same period of 63.5 percent.

Lending In Assessment Area

There are numerous financial institutions competing for market share in FB's assessment area and the competition is strong. FB's major strength is the fact that the institution, because it has been in the community so long, is widely recognized and does not have to spend heavily on advertising to generate loan business. As of this examination, FB's market share of home mortgage loans originated inside the assessment area was 0.6 percent, representing a market rank of 46 out of a total of 239 lenders reporting home mortgage originations. FB's assessment area is dominated by large mortgage companies and multi-billion dollar commercial banks. Specifically, PNC Bank Delaware, Wells Fargo Home Mortgage, Wilmington Trust Company, and Beneficial Corporation were the top four market share leaders in the assessment area. Since FB does not report its small business lending activity, to the federal government, a market share comparison using FB's small business loans could not be performed.

As detailed in the following table, a majority of loans by number and dollar volume were originated inside the assessment area.

Table 3 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2001	40	93.0	3	7.0	43	1,526	94.0	98	6.0	1,624
2002	53	80.3	13	19.7	66	3,014	70.6	1,252	29.4	4,266
Subtotal	93	85.3	16	14.7	109	4,540	77.1	1,350	22.9	5,890
Small Business										
2001	24	77.4	7	22.6	31	2,336	64.8	1,267	35.2	3,603
2002	24	77.4	7	22.6	31	2,361	76.1	740	23.9	3,101
Subtotal	48	77.4	14	22.6	62	4,697	70.1	2,007	29.9	6,704
Total	141	82.5	30	17.5	171	9,237	73.3	3,357	26.7	12,594

Source: HMDA Disclosure Statements (2001, 2002), Bank Data.

For the period reviewed, 82.5 percent of the total number of loans, and 73.3 of the total dollar amount of both residential mortgage and small business loans were within the assessment area. Given the bank's asset size, lending activity within the assessment area appears reasonable

Borrower Income

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among borrowers of different income levels, including low- and moderate-income. Income categories used for this analysis were derived utilizing the HUD-adjusted median family income figures for the Dover DE MSA 2190, which includes Kent County, are \$50,400 for 2001 and \$52,100 for 2002. The HUD-adjusted median family income figures for the non-metropolitan portion of Delaware, which includes Sussex County, are \$46,900 for 2001 and \$49,600 for 2002.

Table 4 – HUD Adjusted Median Family Income for MSA 2190 –Kent County			
INCOME LEVEL	PERCENT OF MEDIAN FAMILY INCOME	2001	2002
Low	Less than 50%	Less than \$25,22	Less than \$26,050
Moderate	50% to less than 80%	\$25,200 to less than \$40,320	\$26,050 to less than \$41,680
Middle	80% to less than 120%	\$40,320 to less than \$60,480	\$41,680 to less than \$62,520
Upper	120% and over	\$60,480 and over	\$62,520 and over

Table 5 – HUD Adjusted Median Family Income for Non-metropolitan Portion of Delaware – Sussex County			
INCOME LEVEL	PERCENT OF MEDIAN FAMILY INCOME	2001	2002
Low	Less than 50%	Less than \$23,450	Less than \$24,800
Moderate	50% to less than 80%	\$23,450 to less than \$37,520	\$24,800 to less than \$39,680
Middle	80% to less than 120%	\$37,520 to less than \$56,280	\$39,680 to less than \$59,520
Upper	120% and over	\$56,280 and over	\$59,520 and over

As table 6 shows, FB out performs the aggregate in lending to low-income and middle-income borrowers and is only slightly behind the aggregates performance in lending to moderate-income borrowers.

Table 6 - Distribution of HMDA Loans by Borrower Income								
Borrower Income Level	% of Total Families	Aggregate Lending Data (% of #)	2001		2002		Total	
			2001	#	%	#	%	#
Low	18.5	18.5	6	15.0	13	24.5	19	20.4
Moderate	18.1	29.6	16	40.0	9	17.0	25	26.9
Middle	25.1	20.0	8	20.0	13	24.5	21	22.6
Upper	38.3	28.9	10	25.0	18	34.0	28	30.1
\$0/NA Income	0.0	3.0	0	0.0	0	0.0	0	0.0
Total*	100	100	40	100	53	100	93	100

Source: U.S. Census, HMDA Disclosure Statements (2001 – 2002) and HMDA Aggregate Data.

Even though the distribution of loans to moderate-income borrowers reflects a negative trend, the over performance for the two year period is only slightly less than that of the aggregate. In addition, the distribution of loans to low-income borrowers reflects an increasing trend and the overall performance for the two year period is more favorable than that of the aggregate.

There is a good distribution of loans to businesses of various revenue sizes. An analysis, on table 7, using loan size as a proxy for the size of the business being financed revealed that a significant majority of loans were originated in amounts of \$100,000 or less. During the period reviewed, 64.6 percent of small business loans originated was in amounts of \$100,000 or less. Also, 89.6 percent of the loans to small business were in amounts of \$250,000 or less.

Table 7 - Distribution of Small Business Loans by Loan Size							
Loan Size (000s)	Aggregate Lending Data (% of #)	2001		2002		Total	
		#	%	#	%	#	%
≤ \$100	89.0	16	66.7	15	62.5	31	64.6
> \$100 ≤ \$250	6.5	6	25.0	6	25.0	12	25.0
> \$250 ≤ \$1,000	4.5	2	8.3	3	12.5	5	10.4
Total*	100	24	100	24	100	100	100

Source: Bank Data, CRA Aggregate Data.

The comparison between the aggregate and FB's distribution of loans by loan size indicates that the aggregate originated a greater percentage of loans to small businesses in amounts up to \$100,000 than did FB. However FB originated a greater percentage of loans to small businesses in amounts up to \$250,000 than did the aggregate. It should be noted that the aggregate data is derived using all loans reported to the federal government by competing banks. Because FB, due to asset size, does not report its small business loans to the federal government, FB's data represents only a representative sample.

Geographic Distribution

Of the assessment area's 22 census tracts, no census tract qualifies as low-income, 1 or 4.6 percent qualifies as moderate-income, 17 or 77.3 percent qualifies as middle-income, 1 or 4.5 percent qualifies as upper-income, and 3 or 13.6 percent are geographic anomalies; meaning no income or economic data is available for the census tracts. As discussed in detail in the assessment area description, and summarized here, these 3 geographies have been designated geographic anomalies because they occupy government land of various uses.

Of all the owner occupied housing units located in FB's assessment area, only 284 or 1.0 percent are located in the 1 moderate-income census tracts. The reason for this is that Delaware State University occupies most of that moderate-income census tract. This is the primary reason there is very little lending by either the aggregate or FB in moderate-income census tracts. As discussed in the assessment area description, 97.5 percent of the families that live in FB's assessment area live in middle-income census tracts. Consequently, the assessment area is considered non-complex in terms of the income levels of its geographies.

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area, given the fact that the substantial majority of the owner- occupied housing is located in the middle-income income census tracts.

Table 8 - Distribution of HMDA Loans by Income Category of the Census Tract								
Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2001		2002		Total	
			2001	#	%	#	%	#
Low	0.0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1.0	0.7	0	0.0	0	0.0	0	0.0
Middle	97.2	97.8	38	95.0	52	98.1	90	96.8
Upper	1.8	1.5	2	5.0	1	1.9	3	3.2
\$0/NA Income	0.0	0.0	0	0.0	0	0.0	0	0.0
Total*	100	100	40	100	53	100	93	100

Source: U.S. Census, HMDA Disclosure Statements (2001, 2002), HMDA Aggregate Data..

As table 8 shows, FB's distribution of loans is almost identical to that of the aggregate, and is very reflective of the owner-occupied housing percentages within the moderate-income and middle-income census tracts.

FB's performance in lending to small businesses as compared to the aggregate indicates that the aggregate's distribution of small business loans was just slightly better than FB's in middle-income census tracts. Also, FB lending to businesses in middle-income census tracts improved 4.1 percent from 2001 to 2002.

Table 9 - Distribution of Small Business Loans by Income Category of the Census Tract							
Census Tract Income Level	Aggregate Lending Data (% of #)	2001		2002		Total	
	2001	#	%	#	%	#	%
Low	0.0	0	0.0	0	0.0	0	0.0
Moderate	0.1	0	0.0	0	0.0	0	0.0
Middle	96.5	22	91.7	23	95.8	45	93.8
Upper	3.4	2	8.3	1	4.2	3	6.2
\$0/NA Income	0.0	0	0.0	0	0.0	0	0.0
Total*	100	24	100	24	100	100	100

Source: US Census, Bank Records (2001-2002) and CRA Aggregate Data

Overall, FB's geographic distribution of loans reflects reasonable dispersion, given the demographics of the assessment area.

Response to CRA Related Complaints

No CRA related complaints were received between evaluations.

Compliance with Anti-Discrimination Laws and Regulations

No violation of the substantive provisions of the anti-discrimination laws and regulations were identified during the examination.