

# **PUBLIC DISCLOSURE**

**June 8, 2005**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Mercantile Peninsula Bank  
11652**

**Church Street  
Selbyville, Delaware 19975**

**Federal Deposit Insurance Corporation  
20 Exchange Place - 4th Floor  
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 **Mercantile Peninsula Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **June 8, 2005**. 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 Satisfactory.

The primary factors contributing to this rating are summarized in the following sections:

### Lending Test

- The bank originated a high volume small business and small farm loans, a majority of which were within the assessment area.
- The geographic distribution reflects a good penetration throughout the bank's assessment area, including the low- and moderate-income census tracts.
- The bank has achieved a good level of lending to small businesses and small farms, particularly those with gross annual revenues of \$1 million or less.
- The majority of small business loans were in amounts of \$100,000 or less.
- The bank has originated a good level of community development loans since the previous examination.
- The bank's inventory of innovative and flexible lending programs is limited.

### Investment Test

- The bank has an adequate level of qualified investments.
- Investments are responsive to the needs of the assessment area.

### Service Test

- The delivery of retail services reflects an excellent response to the needs of all segments of the community.
- Retail services and alternative delivery systems are accessible to all portions of the assessment area.
- The institution provides a relatively high level of community development services.

**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.*

<b>PERFORMANCE LEVELS</b>	<b>Mercantile Peninsula Bank</b>		
	<b>PERFORMANCE TESTS</b>		
	<b>Lending Test</b>	<b>Investment Test</b>	<b>Service Test</b>
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

## DESCRIPTION OF INSTITUTION

Mercantile Peninsula Bank is a state-chartered, investor-owned commercial institution that was established in August 2004 with the merger of Baltimore Trust Company of Selbyville, Delaware, Farmers and Merchants Bank of Onley, Virginia, and Peninsula Bank of Salisbury, Maryland. Mercantile Peninsula Bank currently has \$1.6 billion in assets and 38 offices located in the southern half of the Delmarva Peninsula.

The bank is a subsidiary of Mercantile Bankshares, a regional multibank holding company headquartered in Baltimore, Maryland, with just over \$15 billion in total assets. Mercantile Bankshares owns 11 community banks and a mortgage company that serves Maryland, northern Virginia, Washington D.C., and southern Pennsylvania as well as the Delmarva Peninsula through 235 retail offices.

Mercantile Peninsula Bank continues to maintain its predecessors' historic orientation to the financial needs of small- and medium-sized business. Commercial loans, which exist in the form of "commercial real estate" and "commercial and industrial" loans are, together, the bank's leading credit activity with 47.1 % of its \$1.3 billion loan portfolio. Residential mortgage lending (first mortgages, second mortgages, and home equity lines of credit secured by 1-4 family residential real estate) is next with 30.9% followed by construction and land development loans with 14.8%, consumer installment loans (credit cards and other types of loans to individuals) with 4.8 %, and agricultural loans (loans secured by farmland and "agricultural" loans) with 1.8%. Loans secured by multi-family properties, loans to states and political subdivisions and other loans make up the balance. Table 1 illustrates the bank's lending activity with a breakdown of its existing loan portfolio:

**Table 1**  
**Loan Portfolio**

<b>Loan Type</b>	<b>3/31/05 \$(000s)</b>	<b>% Total Loans</b>	<b>9/30/04 \$(000s)</b>	<b>% Total Loans</b>	<b>\$ Change 2004- 2005</b>	<b>% Change 2004- 2005</b>
Construction and Land Development	191,091	14.8	193,187	15.4	-2,096	-1.1
Secured by Farmland	18,214	1.4	18,245	1.5	-31	-.02
<i>1-4 Family Residential:</i>						
Home Equity Lines of Credit	317,138	4.3	54,101	4.3	865	1.6
First Liens	25,713	24.5	292,340	23.4	24,798	8.5
Second Liens	54,966	2.0	27,741	2.2	-2,028	-7.3
Multi-Family Residential (5 + units)	5,115	0.4	6,144	0.5	-1,029	-16.7
Nonfarm Nonresidential	473,273	36.7	459,180	36.7	14,093	3.1
Commercial and Industrial	133,872	10.4	137,215	11.0	-3,343	-2.4
Agricultural	5,172	0.4	5,330	0.4	-158	-3.0
Loans to Individuals – Revolving Credit	697	0.1	746	0.1	-49	-6.6
Loans to Individuals – Other	47,432	3.7	47,881	3.8	-449	-0.9
States and political subdivisions	15,964	1.2	7,738	0.6	8,226	106.3
All Other Loans	1,625	0.1	1,560	0.1	65	4.2
<b>Gross Loans</b>	<b>1,290,272</b>	<b>100.0</b>	<b>1,251,408</b>	<b>100.0</b>	<b>38,864</b>	<b>3.1</b>

Source: Consolidated Reports of Condition and Income as of the dates shown.

As Table 1 shows, Mercantile Peninsula Bank's loan portfolio has grown by \$38.9 million, or 3.1%, shortly after it was established in August 2004. During the same period, additional data from the bank's September 30, 2004 Call Report shows that assets and deposits declined by 0.8% and 4.0%, respectively. However, the structure of the bank's loan portfolio has remained relatively constant.

This is the first FDIC CRA examination of Mercantile Peninsula Bank. The previous CRA evaluation dates and ratings assigned to the three individual institutions that merged in August 2004, to form the bank are as follows:

<u>Bank</u>	<u>Evaluation Date</u>	<u>CRA Rating</u>
Baltimore Trust Company	April 29, 2002	Satisfactory
Farmers & Merchants Bank	November 3, 2003	Satisfactory
Peninsula Bank	June 25, 2001	Satisfactory

## **DESCRIPTION OF THE ASSESSMENT AREA**

### Geographic Configuration

The Community Reinvestment Act (CRA) requires a financial institution to define an assessment area within which its CRA performance will be evaluated. The bank's assessment area covers the southern half of the Delmarva Peninsula and is made up of six counties located in three states: Sussex County in Delaware; Somerset, Wicomico, and Worcester Counties in Maryland; and Accomack and Northampton Counties in Virginia. As currently defined, the area meets all technical requirements of the regulation since it (a) is contiguous, (b) does not arbitrarily exclude low- and moderate-income areas, and (c) is made up of whole geographies. None of the six counties that form the assessment area was part of a Metropolitan Statistical Area (MSA) in 2003, the primary period covered by this examination.

The economy of the assessment area is based primarily on agriculture and tourism. Agricultural activities are centered primarily on chicken raising and processing, although "truck farming" (i.e. fruits and vegetables grown for fresh produce), commercial fishing, and forestry also play important roles. Salisbury, Maryland is the area's transportation, industrial, and retail center and is the home of Purdue Farms, one of the area's largest employers. Tourism has traditionally been centered in and around the famous Ocean City beach resort located about mid-way down the peninsula's Atlantic coast. However, as a result of the area's warm climate, accessibility to waterfront areas, and proximity to major population centers such as Baltimore, Washington D.C., and Philadelphia, tourism has been expanding. These same factors have also begun to make the area highly attractive as a retirement community, a trend that is likely to result in increased housing development suited to the needs of maturing "baby boomers."

### Demographic and Housing Characteristics

According to 2000 census data, the delineated area contains 82 census tracts. Of these, 1 is classified as low income, 9 as moderate income, 66 as middle income, and 5 as upper income. One census tract is populated by the inmates of a correctional institution and, thus, has no income classification. This census tract is not included in the analysis since it provides no opportunities for the bank to accept deposits or extend credit.

The area's single low-income census tract and three of its moderate-income census tracts are located in Salisbury, Maryland. The remaining moderate-income census tracts are represented by the towns of Berlin, Crisfield, Pocomoke City, and Princess Anne, Maryland, and an area made up of two census tracts located along the Atlantic coast in Virginia. Two of the five upper-income census tracts are located just outside of Salisbury, Maryland. The other three are located in Delaware along the Atlantic coast.

The area has a total population of 363,970 residing in 98,836 family households. Of all family households in the area, 20.7% are low-income, 19.4% are moderate-income, 23.5% are middle-income, and 36.3% are upper-income. The proportion of low- and moderate-income families in the assessment area is slightly higher than those of the states of which it is comprised while the

proportions of upper-income families are slightly lower.<sup>1</sup> Families below the poverty level account for 9.1% of all families in the assessment area compared to 6.5% in Delaware, 6.1% in Maryland, and 7.0% in Virginia. The \$44,450 median family income of the assessment area is also low when compared to median family incomes of \$55,257 in Delaware, \$61,876 in Maryland, and \$54,169 in Virginia.

The delineated area contains a total of 211,020 housing units. Of these, 59.0% are single-family detached units, 8.2% are units in 2-4 family structures, and 14.5% are units in multifamily structures. The proportion of single family units in the assessment area is lower than the 68.8% of single-family units in the non-MSA portions of Delaware, Maryland, and Virginia while the proportion of units in 2-4 family and multifamily structures, at 6.9% and 8.1% is higher. The proportion of mobile homes in the assessment area, at 17.9% of all units, is also higher than the 15.9% proportion of such housing in the non-MSA portions of Delaware, Maryland, and Virginia. Only 51.0% of all housing units in the assessment area are owner-occupied compared to 61.7% for the non-MSA portion of the three states.

### Business and Labor Force

The bank's assessment area contains a total of 1,256 farms<sup>2</sup> and 23,301 non-farm business. Of these, 93.0% of all farms and 64.1% of all non-farm businesses are considered "small farms" and "small businesses," respectively, with gross annual revenues of \$1 million or less. Among non-farm businesses, services represent the largest proportion with 33.7% followed by retail trade with 21.0%, construction with 10.8%, and "finance, insurance, and real estate" with 6.9%. The balance of all classifiable establishments is made up of manufacturing (3.2%), "transportation and communication" (3.4%), wholesale trade (3.6%), public administration (1.8%), and mining (0.1%). Of all farm and non-farm businesses in the area, 58.3% have 4 or fewer employees.

The area has a labor force of 175,348. Of this, 10,363, or 5.9%, are unemployed, a rate that is slightly higher than the 5.2% of other non-MSA areas in Delaware, Maryland, and Virginia, but well in excess of the 5.2%, 4.7%, and 4.1% unemployment rates of each respective state as a whole. A local economic development agency contacted during this examination indicated that one of the area's critical needs is good paying jobs, particularly those that offer health-care benefits.

### Competitive Environment

The bank faces competition from 38 other depository institutions that operate 171 offices within the delineated area. Mercantile Peninsula is the largest locally based institution with 38 offices and a 6.0% share of the local deposit market. However, the area's commercial lending market is considerably more competitive. CRA Business Loan data for calendar year 2003, the latest year for which such data is publicly available, show that 70 different lenders originated 12,418 commercial loans totaling \$436.9 million in the bank's assessment area. Based on the number of loans originated, Mercantile Peninsula Bank ranked second with a 15.5% market share. Ranking first was Capital One Federal Savings Bank with a 21.7% market share. Based on total

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1. The proportion of low-income families ranges from 18.2% in Virginia to 19.5% in Maryland while the proportion of moderate-income families ranges from 18.1% in Delaware to 19.9% in Virginia. The proportion of upper-income families ranges from 39.0% in Maryland to 41.0% in Virginia.

2. The category "farms" includes agriculture, forestry, and fishing.

dollar amount, however, Mercantile Peninsula Bank ranked first with a 40.2% market share. Ranking second was Wilmington Trust Company with a 7.81% market share followed by the Calvin B. Taylor Banking Company with 8.0%, and Delaware National Bank with 3.5%. The apparent disparity between rankings based on the number of loans as opposed to dollar volume is the result of commercial credit card accounts.<sup>3</sup> Institutions such as Capital One, MBNA America, Citibank, Bank One, and American Express Centurion that all rank highest by the number of loans originated and have average loan amounts ranging from \$3,000 to \$9,000 while institutions that do not offer similar types of accounts have average loan amounts in the \$30,000 to \$240,000 range.

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3. Although some business credit card accounts represent business loans, accounts of this type are dominated by credit cards issued to the employees of a company for expense account purposes (i.e. travel, lodging, meals, entertainment, etc.).

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

The bank's CRA performance is based on three tests: the Lending Test, the Investment Test, and the Service Test. The time period used for this evaluation was the date of the last CRA performance evaluation of the three institutions that combined to form Mercantile Peninsula bank as indicated previously in this report. For purposes of consistency, small business lending was evaluated using CRA small business lending data for complete calendar years. The CRA data used in this evaluation covers calendar years 2003 and 2004.

### **THE 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**

With 1,965 loans to businesses and farms totaling \$182.4 million during calendar year 2003, Mercantile Peninsula Bank ranked second in the number of loans originated and first in total dollar volume among all lenders doing business in the assessment area. This, together with a net loan to deposit ratio that increased from 95.1% as of December 31, 2003, to 102.2% as of March 31, 2005, (the most recent call report date) show that management actively uses the bank's financial resources as a means to supply credit and displays an excellent level of responsiveness to local credit needs.

#### **Lending Within the Assessment Area**

With 97.9% of the number and 96.3% of the dollar volume of all loans originated during calendar year 2003 to businesses and farms located in the six counties that comprise the assessment area, the bank originates a substantial majority of loans within its assessment area. Data for 2004 (not shown) shows a substantially similar pattern.

The high overall proportion of loans originated locally is not only the result of management's strong commitment to the area that the bank serves, but also to the policy of the bank's parent company, Mercantile Bankshares, that its affiliates make every reasonable effort to limit their lending activity to their individual market areas. Table 2 shows the proportion of loans originated inside and outside of the bank's assessment area during 2003:

**Table 2**  
**Lending Within Assessment Area (2003)**

Loan Type	Inside		Outside		Total	Inside		Outside		\$ Total
	#	%	#	%		\$	%	\$	%	
Small Business	1,847	97.8	41	2.2	1,888	171,753	96.3	6,675	3.7	178,428
Small Farm	77	100.0	0	0.0	77	4,001	100.0	0	0.0	4,001
<b>Total</b>	<b>1,924</b>	<b>97.9</b>	<b>41</b>	<b>2.1</b>	<b>1,965</b>	<b>175,754</b>	<b>96.3</b>	<b>6,675</b>	<b>3.7</b>	<b>182,429</b>

Source: 2003 CRA data for Baltimore Trust, Farmers & Merchants Bank, and Peninsula Bank.  
Dollar values are expressed in thousands.

### Geographic Distribution of Loans

The geographic distribution of the bank's small business and small farm loans indicates that management has achieved a good level of penetration of loans to geographies of all income levels throughout the assessment area.

Tables 3 and 4 show, respectively, the geographic distribution of the bank's small business and small farm loans originated during calendar year 2003.

**Table 3**  
**Small Business Loans**

Census Tract Income	Distribution of Businesses		Other CRA Lenders 2003		Mercantile Peninsula Bank 2003	
	#	%	#	%	#	%
Low	87	0.4	27	0.2	4	0.2
Moderate	2,041	8.9	946	8.4	258	14.0
Middle	17,615	77.0	8,939	79.6	1,426	77.2
Upper	3,137	13.7	1,315	11.7	159	8.6
<b>Total</b>	<b>22,880</b>	<b>100.0</b>	<b>11,227</b>	<b>100.00</b>	<b>1,847</b>	<b>100.0</b>

Source: 2003 Business Demographic and CRA data.

**Table 4**  
**Small Farm Loans**

Census Tract Income	Distribution of Farms		Other CRA Lenders 2003		Mercantile Peninsula Bank 2003	
	#	%	#	%	#	%
Low	3	0.2	0	0.0	0	0.0
Moderate	70	5.6	22	11.3	11	14.3
Middle	1,077	85.8	166	85.6	64	83.1
Upper	105	8.4	6	3.1	2	2.6
<b>Total</b>	<b>1,255</b>	<b>100.0</b>	<b>194</b>	<b>100.00</b>	<b>77</b>	<b>100.0</b>

Source: 2003 Business Demographic and CRA data.

The data in Tables 3 and 4 shows that the bank's small business and small farm loans have been originated in geographies of all income levels, including low- and moderate-income census tracts. In addition, the geographic distribution of small business and small farm loans are similar to local business demographics and activity of other lenders.

In the area's single low-income census tract, both the bank and other CRA data-reporting lenders originated loans at a volume lower than indicated by the geographic distribution of small businesses and small farms. However, the proportion of loans originated by both the bank and other lenders appears appropriate given the small number of businesses and farms involved as well as the fact that only one low-income geography is located within the delineated area. Loan originations in moderate-income geographies exceed the proportion of businesses located in such areas and the aggregate lending level. Loan volume in both middle- and upper- income geographies is slightly below the level indicated by local business demographics and the activity of other CRA lenders. Data regarding the geographic distribution of small business and small farm loans during calendar year 2004 show a similar pattern.

**Distribution of Loans by Size to Small Businesses and Farms**

The distribution of the bank's small business and small farm loans of different sizes reflects a good level of penetration among business and farms of different sizes.

Data compiled for this examination show that the bank originated a total of 1,924 CRA reportable loans to businesses and farms. Of these, 95.8% were to businesses and farms with gross annual revenues of \$1 million or less, a level that is comparable to, but slightly below, 98.3% for all other CRA data-reporting lenders.

The data in Tables 5 and 6 summarize loan originations by the bank and other CRA data reporters to small business and small farms by loan size category:

**Table 5**  
**Small Loans to Businesses With**  
**\$1 Million or Less in**  
**Gross Annual Revenues**

Loan Amount	All Other CRA Lenders - 2003		Mercantile Peninsula Bank	
	#	%	#	%
<= \$100	10,271	91.5	1,401	75.9
> \$100<= \$250	527	4.7	278	15.1
> \$250<= \$1,000	429	3.8	168	9.1
Total	11,227	100.0	1,847	100.0

**Table 6**  
**Small Loans to Businesses With**  
**\$1 Million or Less in**  
**Gross Annual Revenues**  
**(Less Credit Card Lenders)**

Loan Amount	All Other CRA Lenders - 2003		Mercantile Peninsula Bank	
	#	%	#	%
<= \$100	162	83.5	66	85.7
> \$100<= \$250	24	12.4	10	13.0
> \$250<= \$500	8	4.1	1	1.3
Total	194	100.0	77	100.0

Source: 2003 Business Demographic and CRA data.

Tables 5 and 6 show the vast majority of all of the bank’s small business and small farm loans were originated in amounts of \$100,000 or less, a strong indication that the bank is providing credit to the area’s smallest businesses and farms. The data in Table 5 indicates that the bank is well behind other CRA data-reporting lenders in the proportion of loans originated in the two smallest size categories ( $\geq$ \$100,000 and  $>$ \$100,000 -  $\leq$ \$250,000) and ahead of other lenders in the largest size category ( $>$ \$250,000 -  $\leq$ \$1 million). However, as discussed previously, this is the result of the institutions doing business in the area that offer commercial credit card accounts. The data in Table 6 reflects the bank’s relative position as a small business lender had these institutions not been present.

### **Community Development Lending**

*The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent the institution has demonstrated leadership in community development lending.*

Management has displayed a good level of support for community development initiatives by originating 41 community development loans to 13 community development organizations totaling \$10.3 million. The following are examples of the loans the bank has extended for community development purposes:

- The bank has provided \$612,000 in end-loan financing to a private, Maryland-based developer of affordable housing for low- and moderate-income families. Loans are provided at discounted rates and often include “soft second” mortgages for purchasers who cannot afford a down payment.
- In 2003, the bank extended two loans totaling \$295,000 to a Virginia-based organization that provides a variety of services to “at risk” children of local low- and moderate-income families. The proceeds of the loans were used to purchase a van to transport the clients of

the organization to and from local medical facilities and to provide working capital for the organization's day-to-day operations.

- Since 2002, the bank has provided 11 loans totaling \$189,000 in an on-going relationship with a Delaware based Community Development Financial Institution that was originally formed by a coalition of local banks. Loans are provided at below-market rates to new business enterprises.

Although they may not be specifically considered under this portion of the lending test, the bank has also been a major, ongoing source of credit to various units of local government in the assessment area in their efforts to improve the infrastructure of the areas they serve. A recent example of such support was a \$3.6 million loan to a local county to establish a "911" emergency telephone system.

### **Innovative and Flexible Lending Programs**

*The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.*

Mercantile Peninsula Bank's inventory of innovative and flexible lending programs for local businesses and farms is effectively limited to SBA loans. However, during the period covered by this examination, 7 SBA loans totaling \$1.4 million have been originated to local businesses.

The bank has also maintained a somewhat unique indirect lending agreement with a local mobile home dealer and its financing subsidiary that allows low- and moderate-income homebuyers to purchase affordable housing on terms that are more liberal than conventional financing. During the assessment period, 10 loans totaling \$299,000 have been originated.

## INVESTMENT TEST

*The investment test evaluates an 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:*

- *The dollar amount of qualified investments.*
- *The innovativeness or complexity of qualified investments.*
- *The responsiveness of qualified investments to credit and community development needs.*
- *The degree to which the qualified investments are not routinely provided by private investors.*

*A qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose. Community development includes affordable housing for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low- and moderate-income geographies.*

The bank's qualified investments have grown from \$3.9 million at the previous examinations of each of the three institutions that merged to form Mercantile Peninsula Bank to just over \$6.4 million as of this examination date, an amount that represents 4.0% of total investments and 0.4% of total assets as of December 31, 2003.<sup>4</sup> While none of the investments the bank has made either before or after the previous examination can be considered as either "innovative or complex," the total amount involved indicates an adequate level of performance and demonstrates responsiveness on the part of management to the needs that exist among the area's low- and moderate-income residents. The following is a summary of the investments that management has made during this examination period:

- Management has purchased an additional \$1.05 million investment in the Maryland Community Development Administration, bringing its total investments in this state agency that provides financing for affordable housing throughout the state of Maryland to just under \$2.5 million.
- Management has purchased an additional \$100,000 investment in the Virginia Housing Development Authority, bringing its total investments in this state agency that provides financing for affordable housing throughout the state of Virginia to \$348,000.
- During this examination period, management invested \$2.5 million in CRA Fund Advisor's Community Reinvestment Act Qualified Investment Fund. This equity fund invests in CRA securities backed by a wide range of community development loans, including home mortgages, affordable rental housing, commercial real estate, and small business loans.

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4. The bank's \$6.4 million in total investments consists of the \$3.9 million book value of investments carried over from the previous examination and \$2.5 million in new investments.

In addition to the investments described above, the bank has provided contributions totaling \$2.3 million during the assessment period to a wide variety of organizations throughout its assessment area. Of these, \$63,000 represent contributions that promote community development, as defined under the CRA regulation.

## **SERVICE 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:*

- *The distribution of the institution's branches among geographies of different income levels.*
- *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.*
- *The availability and effectiveness of alternate systems for delivering retail banking services.*
- *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.*

The bank's systems for delivering retail-banking services are readily accessible to geographies and individuals of different income levels within its assessment area. Retail banking services and products offer customers flexibility and convenience.

The bank provides a good level of service in response to community development needs through the involvement of officers and staff in community organizations located throughout the assessment area. The following details the institution's services.

### **Retail Banking Services**

#### *Distribution of Branches*

Mercantile Peninsula Bank operates 37 full-service branches, one limited service office, and two remote automatic teller machines (ATM). The bank's administrative offices located at 110 West Main Street in Salisbury also provide 24 hour ATM services and is available to applicants applying for loans. One office is located in a low-income census tract, 11 (including the bank's limited service branch/administrative office) are located in moderate-income tracts, 23 are located in moderate-income tracts, and 3 are located in upper-income areas. The bank's remote ATMs, one in Salisbury, Maryland, and one in Bethany Beach, Delaware, are located in middle- and upper-income census tracts, respectively.

Since the previous examinations of the three institutions that form Mercantile Peninsula Bank, one office, the bank's Lewes Branch located at 34383 Carpenters Way in Lewes, Delaware has been opened. This new office is located in a middle-income census tract. Two offices have also been closed, the bank's Market Street Branch in Pocomoke City and its Main Street Branch in Sharptown Maryland. The Pocomoke City branch was located in a moderate-income census tract, while the Sharptown branch was located in a middle-income geography.

Branch hours are comparable to other local institutions and do not vary in a manner that represents a disadvantage to the residents of any particular set of geographies. ATMs are linked to the AFFN, PLUS, and STAR networks and are available at all branch locations.

#### Alternative Banking Services

The bank operates a toll-free, 24-hour automated bank by telephone system. This feature enables customers to obtain current account balances, verify the dates and amounts of recent transactions, learn if a personal check has been paid, transfer funds between accounts, and obtain information about deposit account and loan rates.

Mercantile Peninsula Bank also offers Internet banking. Located at [www.mercantilebank.com](http://www.mercantilebank.com), this feature gives customers the ability to manage their finances from a home or office computer. Customers can review checking, savings, and CD accounts, check account balances, make loan payments, transfer funds between accounts, view account histories, and view paid check images online. Customers can also sign up for the bill pay feature which is available for \$15.00 per month to commercial account holders and from \$0.00 to \$5.00 per month for consumers depending upon their total account balance and the level of service selected.

#### Other Services

A variety of deposit products, loan products and business services are available. The bank offers checking accounts, savings accounts, certificates of deposit, individual retirement accounts, and investment services. Low cost savings and checking accounts are available to all consumers, including those with modest incomes. The basic checking is available for a service charge of \$2.00 per month with no minimum balance requirements and 10 free checks per month. Regular savings accounts are free with a \$100.00 minimum balance requirement to earn interest.

Mercantile Peninsula Bank offers a full range of business banking products and services. These services include business checking, business savings, certificate of deposit accounts, and night deposit service. Commercial loan products include commercial real estate loans, letters of credit, lines of credit, secured loans, term loans, and SBA-guaranteed loan programs. For consumers, credit products include residential mortgages, home equity lines of credit, loans for new and used mobile homes, and a full range of installment loan products for the purchase of cars, boats, recreational vehicles, and other purposes.

### **COMMUNITY DEVELOPMENT SERVICES**

The CRA regulation defines a community development service as a service that is primarily for community development purposes and is related to the provision of financial services. Mercantile Peninsula Bank's qualified community development services demonstrate a good level of involvement by the bank's officers and staff who offer their technical expertise, experience, and judgment available to a variety of community organizations. The following are examples:

- A senior officer and director is Chairman of the Board of Peninsula Regional Medical Center which provides medical services to the entire area and provides over \$10 million in assistance each year to those who cannot afford to pay. This officer is also a member of the Greater

Salisbury Committee which was instrumental in establishing Salisbury Neighborhood Housing Services, Inc. and Urban Salisbury, an organization that is currently developing a plan to close the Wicomico River Industrial Park and convert it into affordable housing.

- An Executive Vice President has served on the Board of Salisbury Neighborhood Housing Services, Inc. since its was established in 1994. He currently serves as Vice Chairman and previously held the positions of Treasurer and Chairman of the loan committee. He has also served for the past 10 years as the member of the Fruitland Economic Development Commission which promotes small business development in the town of Fruitland and the surrounding area. He is also a member of the Commission's Bankers' Review Committee which evaluates and recommends loan applications submitted by local businesses to Fruitland's Small Business Revolving Loan Fund.
- Another senior officer serves on the Executive and Loan Committees of Salisbury Neighborhood Housing Services as well as its current Treasurer. He also serves on the loan committees of the Salisbury Wicomico Economic Development Commission, the loan committee of the City of Salisbury, and as Treasurer of the local Salvation Army.
- One of the bank's Branch Managers serves on the board of the Virginia Eastern Shore Economic Empowerment and Housing Corporation.
- A bank officer served as President of the Interfaith Mission of Sussex County, a nonprofit organization that renovates and builds affordable housing in Sussex County, Delaware and currently serves as Treasurer of the Delaware Housing Coalition, a citizen advocacy group that advocates for fair and affordable housing and assists those seeking affordable housing opportunities.

## DELAWARE

***CRA RATING FOR DELAWARE: Satisfactory***

***The Lending Test is rated: High Satisfactory***

***The Investment Test is rated: Low Satisfactory***

***The Service Test is rated: High Satisfactory***

### SCOPE OF EXAMINATION

All activities within the state of Delaware were reviewed.

### DESCRIPTION OF OPERATIONS IN THE STATE OF DELAWARE:

Mercantile Peninsula Bank operates seven full service branch offices in the Sussex County, Delaware portion of its assessment area. Five offices are located in middle-income census tracts and two are in upper-income census tracts. An additional stand-alone ATM is located in this area.

The Delaware portion of the assessment area is made up of 33 middle- and 3 upper-income census tracts. The area has a population of 156,638, concentrated primarily in the middle-income areas. As for the income classification of the area's families, 21.9% are low-income, 17.0% percent are moderate-income, 20.6% percent are middle-income, and 40.4% are upper-income. The area contains 8,783 businesses and 481 farms, or 37.7% and 38.2%, respectively of all businesses and farms within the assessment area.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE STATE OF DELAWARE:

#### LENDING TEST

##### *Small Business and Small Farm Lending*

During 2003, the bank originated 281 small business loans and 7 small farm loans in the Delaware portion of its assessment area. This represents 10.0% of all small business loans and 6.5% of all small farm loans originated in the bank's assessment area as a whole.

During the review period, the small business lending was concentrated in the middle-income areas. The bank consistently originated a majority of CRA reportable loans to businesses and farms with gross annual revenues less than or equal to \$1 million. The distribution by geography and size of business is consistent with the area's business demographics.

##### *Community Development Lending*

During the review period the bank originated 14 community development loans to 4 community development organizations totaling \$939,316 in the Delaware portion of its assessment area.

### *Innovative or Flexible Lending Products*

The bank's loan products are offered throughout its entire assessment area. For details concerning special or innovative loan programs, refer to the innovative or flexible lending product discussion in the Lending Test section of the Performance Evaluation for the assessment area.

### **INVESTMENT TEST**

The bank's actual investment activity in Delaware portion of the assessment area is limited, although many of the bank's investments benefit the assessment area as a whole. For additional details, refer to the Investment Test section of the Performance Evaluation for the assessment area.

### **SERVICE TEST**

The bank's service performance in the Delaware portion of the assessment area is identical to its performance in the entire assessment area. The bank's product and services are offered and accessible throughout the entire assessment area. For additional details, refer to the Service Test section of the Performance Evaluation for the assessment area.

## MARYLAND

**CRA RATING FOR MARYLAND: Satisfactory**

**The Lending Test is rated: High Satisfactory**

**The Investment Test is rated: Low Satisfactory**

**The Service Test is rated: High Satisfactory**

### SCOPE OF EXAMINATION

All activities within the state of Maryland were reviewed.

### DESCRIPTION OF OPERATIONS IN THE STATE OF MARYLAND:

Mercantile Peninsula Bank operates 25 full service branch offices in the Maryland portion of its assessment area. One office is located in a low-income census tract, nine offices are in moderate-income census tracts, 14 are in middle-income census tracts and 1 is in an upper-income census tract. An additional stand alone ATM is located this area.

The Maryland portion of the assessment area is made up of 1 low-, 7 moderate-, 24 middle-, and 2, upper-income census tracts. The area has a population of 155,934, concentrated primarily in the middle-income areas. As for the income classification of the area's families, 25.1% are low-income, 17.7% are moderate-income, 20.4% are middle-income, and 36.84% are upper-income. The area contains 10,991 businesses and 541 farms, or 47.2% and 43.1%, respectively of all businesses and farms within the assessment area.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE STATE OF MARYLAND:

#### LENDING TEST

##### *Small Business and Small Farm Lending*

During 2003, the bank originated 1,140 small business loans and 33 small farm loans in the Maryland portion of its assessment area. This represents 53.5% of all small business loans and 40.3% of all small farm loans originated in the bank's assessment area as a whole.

During the review period, the small business lending was concentrated in the middle-income areas. The bank consistently originated a majority of CRA reportable loans to businesses and farms with gross annual revenues less than or equal to \$1 million. The distribution by geography and size of business is consistent with the area's business demographics.

### *Community Development Lending*

During the review period the bank originated 24 community development loans to 7 community development organizations totaling just over \$9 million in the Maryland portion of its assessment area.

### *Innovative or Flexible Lending Products*

The bank's loan products are offered throughout its entire assessment area. For details concerning special or innovative loan programs, refer to the innovative or flexible lending product discussion in the Lending Test section of the Performance Evaluation for the assessment area.

## **INVESTMENT TEST**

The Maryland portion of the assessment area accounts for a majority of the bank's investments. For additional details, refer to the Investment Test section of the Performance Evaluation for the assessment area.

## **SERVICE TEST**

The bank's service performance in the Maryland portion of the assessment area is identical to its performance in the entire assessment area. The bank's product and services are offered and accessible throughout the entire assessment area. For additional details, refer to the Service Test section of the Performance Evaluation for the assessment area.

## VIRGINIA

***CRA RATING FOR VIRGINIA: Satisfactory***  
***The Lending Test is rated: High Satisfactory***  
***The Investment Test is rated: Low Satisfactory***  
***The Service Test is rated: High Satisfactory***

### SCOPE OF EXAMINATION

All activities within the state of Virginia were reviewed.

### DESCRIPTION OF OPERATIONS IN THE STATE OF VIRGINIA:

Mercantile Peninsula Bank operates 7 full service branch offices in the Virginia portion of its assessment area. Two offices are located in moderate-income census tracts and 5 offices are in middle-income census tracts.

The Virginia portion of the assessment area is made up of 2 moderate- and 9 middle-income census tracts. The area has a population of 51,398 concentrated primarily in the middle-income areas. As for the income classification of the area's families, 27.4% are low-income, 17.7% are moderate-income, 19.9% are middle-income, and 35.0% are upper-income. The area contains 2,527 businesses and 234 farms, or 10.8% and 18.6%, respectively of all businesses and farms within the assessment area.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE STATE OF VIRGINIA:

#### LENDING TEST

##### *Small Business and Small Farm Lending*

During 2003, the bank originated 426 small business loans and 37 small farm loans in the Virginia portion of its assessment area. This represents 23.1% of all small business loans and 48.1% of all small farm loans originated in the bank's assessment area as a whole.

During the review period, the small business lending was concentrated in the middle-income areas. The bank consistently originated a majority of CRA reportable loans to businesses and farms with gross annual revenues less than or equal to \$1 million. The distribution by geography and size of businesses is consistent with the area's business demographics.

##### *Community Development Lending*

During the review period the bank originated 3 community development loans to 2 community development organizations totaling \$319,580 in the Virginia portion of its assessment area.

### *Innovative or Flexible Lending Products*

The bank's loan products are offered throughout its entire assessment area. For details concerning special or innovative loan programs, refer to the innovative or flexible lending product discussion in the Lending Test section of the Performance Evaluation for the assessment area.

### **INVESTMENT TEST**

Investments in the Virginia portion of the assessment area are limited. For additional details, refer to the Investment Test section of the Performance Evaluation for the assessment area.

### **SERVICE TEST**

The bank's service performance in the Virginia portion of the assessment area is identical to its performance in the entire assessment area. The bank's product and services are offered and accessible throughout the entire assessment area. For additional details, refer to the Service Test section of the Performance Evaluation for the assessment area.

**APPENDIX A**

**SCOPE OF EXAMINATION:**

<b>Mercantile Peninsula Bank</b>
<b>SCOPE OF EXAMINATION:</b> Large Bank CRA Procedures
<b>TIME PERIOD REVIEWED:</b> From last examination date of each of the three institutions that merged to form Mercantile Peninsula Bank (June 25, 2002 for Peninsula Bank, April 29, 2002 for Baltimore Trust Company, and November 23, 2003 for Farmers & Merchants Bank) to June 8, 2005.
<b>PRODUCTS REVIEWED:</b> Investments, services, and loans. Loans included community development loans and CRA reportable small business and small farm loans.

<b>LIST OF AFFILIATES AND PRODUCTS REVIEWED</b>		
<b>AFFILIATE(S):</b>	<b>AFFILIATE RELATIONSHIP:</b>	<b>PRODUCTS REVIEWED:</b>
None		

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>ASSESSMENT AREA:</b>	<b>TYPE OF EXAMINATION:</b>	<b>BRANCHES VISITED:</b>	<b>OTHER INFORMATION:</b>
Bank-defined	Full Scope	Main Office	None

**APPENDIX B**

<b>SUMMARY OF STATE AND MULTISTATE MSA RATINGS</b>				
<b>STATE OR MULTISTATE MSA NAME:</b>	<b>LENDING TEST RATING:</b>	<b>INVESTMENT TEST RATING:</b>	<b>SERVICE TEST RATING:</b>	<b>OVERALL STATE RATING:</b>
Delaware	High Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory
Maryland	High Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory
Virginia	High Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory

## APPENDIX C - 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 % 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 % of the area median income, or a median family income that is less than 50 % in the case of a geography.

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

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

**Upper-Income:** Individual income that is more than 120 % of the area median income, or a median family income that is more than 120 % 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 D - 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 %age 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.