

# **PUBLIC DISCLOSURE**

**March 31, 2009**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of New Castle  
27575**

**12 Reade'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 CRA performance of **Bank of New Castle (BNC)** prepared by the **Federal Deposit Insurance Corporation (FDIC)**, the institution's supervisory agency, as of **March 31, 2009**. 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'S CRA RATING:** This institution is rated Outstanding.

BNC exhibits an outstanding record of helping to meet the credit and community development needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. BNC is designated as a Limited Purpose Bank for purposes of this CRA evaluation. The CRA performance of a Limited Purpose Institution is evaluated pursuant to a Community Development Test which includes an evaluation of the level, innovativeness, and complexity of qualified investments, community development loans, and community development services and the bank's responsiveness to credit and community economic development needs within its assessment area. All CRA-related activities performed since the prior evaluation as of March 8, 2004, were considered during this evaluation. The following summarizes the bank's performance under these criteria:

- BNC has a high level of qualified investments, considering the institution's size and capacity and the availability of community development opportunities in the assessment area. The dollar volume of qualified investments since the prior evaluation increased substantially (over 200 percent). New qualified investments and donations total \$2 million, including a new \$1.7 million investment and donations of \$304 thousand to numerous community development organizations within the bank's assessment area. New qualified investments and donations represent 12 percent of total assets. In addition, BNC has approximately \$139 thousand in qualified investments outstanding since the last evaluation.
- BNC provides a high level of community development services, especially considering the bank's size and resources. BNC does not maintain any retail branches and is limited in its banking activities.
- As a limited purpose credit card bank, BNC is prohibited from making commercial loans. BNC provided no community development loans during the evaluation period.
- The bank occasionally uses innovative qualified investments and community development services. However, none of the bank's qualified investments or community development services are particularly complex.
- BNC exhibits excellent responsiveness to credit and community economic development needs in its assessment area.

## **SCOPE OF EVALUATION**

The evaluation includes a full-scope review of the bank's CRA performance within its designated assessment area. BNC is designated as a Limited Purpose Institution, and therefore, BNC's performance is reviewed using Wholesale and Limited Purpose CRA evaluation procedures. The FDIC evaluates the community development performance of a wholesale or limited purpose bank pursuant to the Community Development Test using the following criteria: (1) The number and amount of community development loans (including originations and purchases of loans and other community development loan data provided by the bank, such as data on loans outstanding, commitments, and letters of credit), qualified investments, or community development services; (2) The use of innovative or complex qualified investments, community development loans, or community development services and the extent to which the investments are not routinely provided by private investors; and (3) The bank's responsiveness to credit and community development needs. A Limited Purpose Institution is not required to engage in all three categories of community development (lending, investment, and services). The institution may perform well under the Community Development Test by engaging in one or more of these activities. The Community Development Test evaluation period covers activities since the March 8, 2004 CRA evaluation.

BNC continues to maintain its limited credit card bank charter by not engaging in certain prohibited activities. The bank was chartered as a credit card bank; therefore, the bank cannot engage in any lending activity other than credit card lending. No community development loans were submitted for consideration which is in line with the bank's structure and limitations as a credit card bank.

All qualified investments and donations and community development services since the previous evaluation were evaluated. In addition, qualified investments made during the previous evaluation period that remain on the bank's books were considered. The institution opted to have qualified investments/donations made by and community development services provided by affiliates considered. The affiliate investments and services presented were not claimed by any other institution for CRA credit purposes.

## **DESCRIPTION OF INSTITUTION**

BNC was founded in 1988 as a credit card bank. Although separately chartered and regulated, it is a subsidiary of Discover Financial Services (DFS) and an affiliate of Discover Bank. DFS is a large credit card issuer (approximately 50 million card members), with its own electronic payment network operation that includes both credit and debit functionality. BNC does not maintain any retail branches.

BNC continues to maintain its limited credit card bank charter by not engaging in the origination of commercial loans or the acceptance of demand deposits or deposits that the depositor may withdraw by check or similar means. BNC can only engage in credit card operations and accept savings or time deposits equal to or greater than \$100 thousand. BNC currently does not have any outstanding credit card loans and its activities are limited to inter-company funding activities and holding of a single municipal bond.

As of March 31, 2009, BNC had assets of \$16.8 million, liabilities of \$1.3 million and equity capital of \$15.5 million. BNC's asset side of the balance sheet consists of a \$16.6 million loan to Discover Bank, one municipal bond purchased for CRA purposes with a book value of approximately \$139 thousand, and \$96 thousand in cash and other assets. The liability side of BNC's balance sheet consists of one \$500 thousand certificate of deposit issued to Discover Bank, a loan of \$724 thousand issued to its parent company (DFS), and \$58 thousand in other liabilities. As of March 31, 2009, net loans represent 99 percent of total assets.

There are no financial or legal impediments preventing BNC from helping to meet assessment area credit and community development needs. Since July 1996, BNC has been designated as a limited purpose bank for purposes of CRA. BNC received a Satisfactory rating at the March 8, 2004 FDIC CRA evaluation, which was also performed using Wholesale and Limited Purpose CRA evaluation procedures.

## **DESCRIPTION OF THE ASSESSMENT AREA**

CRA requires financial institutions to define assessment area(s) within which the bank will concentrate its CRA activity and lending efforts. The FDIC evaluates the institution's CRA performance based on the defined assessment area(s). BNC's assessment area complies with the technical requirements of CRA, and does not arbitrarily exclude low- or moderate-income geographies.

### **Demographic Data**

BNC's assessment area is New Castle County, Delaware. New Castle County is located within Metropolitan Division (MD) 48864, which is part of the Philadelphia-Camden-Wilmington, Pennsylvania-New Jersey-Delaware-Maryland Metropolitan Statistical Area (MSA) 37980, which is within Philadelphia-Camden-Vineland, Pennsylvania-New Jersey-Delaware-Maryland Combined Statistical Area (CSA) 428. The assessment area includes 127 census tracts, including 10 (8 percent) low-income census tracts, 23 (18 percent) moderate-income census tracts, 61 (48 percent) middle-income census tracts, 32 (25 percent) upper-income census tracts, and 1 (1 percent) census tract where no income was reported. The total population of the assessment area is 500 thousand.

The Department of Housing and Urban Development (HUD) annually adjusts the median family income (MFI) from the most recent U.S. Census data to arrive at an estimate that reflects current economic conditions. The HUD-adjusted MFI is used to determine a bank's lending distribution by borrower income level. A breakdown of families within the assessment area by income level shows that 19 percent are low-income, 17 percent are moderate-income, 24 percent are middle-income, and 40 percent are upper-income. Additionally, eight percent of the families earn no income or incomes below the poverty level. Regardless of income level, 3 percent and 17 percent of the families within the bank's assessment area reside in low- and moderate-income census tracts, respectively.

The majority of the assessment area's housing units are owner-occupied at 67 percent. Rental and vacant units represent 28 percent and 5 percent of total housing units, respectively. One percent and 15 percent of total owner-occupied housing units are located in low- and moderate-income census tracts, respectively.

### **Economic Data**

Although Delaware's unemployment rate generally lags behind the nation's unemployment rate, the state's unemployment rate is climbing rapidly and is at a historical high. According to the Bureau of Labor and Statistics, the national unemployment rate is 8.5 percent as of March 31, 2009. Delaware's unemployment rate is 7.6 percent for the first quarter end 2009, which represents a significant increase from the 5.7 percent reported as of year-end 2008 and the 4.1 percent as of year-end 2007.

Job losses are occurring in most major industries in Delaware. The area's largest employment industries are as follows: services (39 percent), non-classifiable establishments (15 percent), retail trade (14 percent), and finance, insurance, and real estate (14 percent). The five top Delaware employers are Christiana Care Health System, E.I. DuPont de Nemours & Company, Bank of America, N.A., JP Morgan Chase & Company, and Astra Zeneca Pharmaceuticals.

### **Competition**

The bank competes with a number of financial intermediaries for community development activities within its assessment area. As of June 30, 2008, approximately 30 commercial and savings institutions operated close to 170 offices throughout the bank's assessment area. Many of these institutions are significantly larger in asset size than BNC.

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

Overall improvement in the bank's performance under the Community Development Test is noted. During the evaluation period, BNC increased its dollar volume of qualified investments and the level of community development services. BNC's community development investment and service activities support the low- and moderate-income population of its assessment area. Following is a discussion of the BNC's performance under the Community Development Test.

### **COMMUNITY DEVELOPMENT 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.

BNC has a high level of qualified investments that exhibit an excellent responsiveness to the credit and community economic development needs of its assessment area. There is intense competition by financial institutions to participate in the available investment opportunities. Since the previous CRA evaluation, BNC made one new qualified investment totaling \$1.7 million. Although not particularly complex, this investment is considered innovative. BNC also provided donations of \$304 thousand to various community development organizations. Qualified investments and donations equal 12 percent of total assets. In addition, BNC has approximately \$139 thousand in qualified investments outstanding since the last evaluation.

Below is a detailed discussion of the new \$1.7 million qualified investment, the \$139 thousand qualified investment from last evaluation, as well as examples of grants provided to various community development organizations.

#### **Qualified Investments**

The bank made one new qualified investment totaling \$1.7 million since the prior evaluation. BNC was instrumental in helping a local non-profit community development organization secure funds to acquire three multi-family properties which will be utilized as group homes for people with a variety of conditions, including mental illness or substance abuse. These individuals formerly lived in state-owned group homes that were economically beyond repair. The community development organization that received the funding operates a number of clinics and regional service centers throughout the State of Delaware, including New Castle County. The organization provides integrated mental health and substance abuse treatment; community-based housing programs; and primary medical care, employment support, and home health care services. Low- and moderate-income and the homeless are two segments of the population that benefit considerably from the services offered. In particular, the organization has helped approximately 500 individuals and families with little or no income obtain affordable housing.

While BNC did not directly grant the loan to the community development organization due to its lending restrictions, the bank sought to creatively participate in the community development organization's property acquisition by creating an investment that would ultimately fund the entire \$1.7 million loan. BNC accomplished this task by purchasing a five-year term certificate of deposit (CD) at a below market interest rate in return for the Wilmington Savings Fund Society, FSB (WSFS Bank's,) the lead bank's agreement to utilize the funding to reduce the interest rate on the loan extended to the community development organization. BNC's purchase of the CD resulted in a 75 basis point loan rate reduction. Both the term and amount of the CD matched that of the loan. The loan is secured by the three group homes being purchased (located in Sussex and Kent Counties) and another group home (located in New Castle County). Moreover, BNC's involvement in the credit transaction helped the community development organization reduce its debt service expense which in turn provided additional funds for the organization to service other clients.

In addition, approximately \$139 thousand of the bank's original \$249 thousand investment made in the first quarter of 2001 in a Delaware State Housing Senior Mortgage Revenue Bond remains on the books. The funds invested in this bond were used to finance reduced fixed rate second mortgage settlement assistance loans for low- or moderate-income homebuyers. To be eligible for the second mortgage settlement assistance, the homebuyer's income must be below 80 percent of the median income for the particular MSA and the proceeds must be used for the purchase of a primary residence.

### **Qualified Donations**

Since the previous evaluation, BNC provided grants to numerous community development organizations which totaled approximately \$304 thousand. These donations help support housing, educational, and social service needs of low- or moderate-income individuals as well as the development of small businesses or revitalization of low- or moderate-income areas. All of the donations benefited the bank's assessment area. Below are examples of the community development organizations that received donations from the bank:

A total of \$20 thousand in donations was provided to the Challenge Program, a private non-profit organization that offers a construction training program to out-of-school youth. The Challenge Program is a Workforce Investment Board training provider for the State of Delaware. The majority of the individuals participating in the training program are low-income, at risk youths, from New Castle County who enter unsubsidized employment upon completion of the program. In addition to helping these youths gain long term employment, the program continues to help provide affordable housing to lower-income individuals.

A \$25 thousand donation was provided to Community Legal Aid Society, Inc., (CLAS) in 2009. The funding will help provide legal assistance to individuals facing foreclosure by mediating mortgage modifications and giving other guidance.

During 2008, a \$10 thousand donation was provided to the Delaware Community Reinvestment Action Council (DCRAC). The mission of DCRAC is to ensure equal access to credit and capital for the underserved populations and communities throughout Delaware through education, outreach, advocacy, and legislation. The donation will help further DCRAC's credit union charter application, which is structured so that DCRAC may offer competitive small dollar loans to low-income residents of Wilmington, Delaware. These loans are intended to provide individuals an alternative to higher cost loans obtained through payday lenders.

Several donations totaling \$10 thousand were provided to Delaware Futures (DF) in 2004 and 2005. DF provides support to economically disadvantaged high school youth to gain access to college.

A donation of approximately \$20 thousand was provided to First State Community Loan Fund (FSCLF) in 2008, to support FSCLF's small business lending and technical assistance programs. The assistance is anticipated to help roughly 15 new businesses obtain capital loans for a total of \$500 thousand, retain 60 jobs, and provide general assistance to an additional 25 businesses.

Since the previous evaluation, the bank provided approximately \$7 thousand to the Department of Services for Children, Youth, and their Families. Funding was used to support Silver Lake Treatment Center's Youth Rehabilitation program. The program serves children who have a learning disability, receive medical treatment, or are addicted to drugs or alcohol. All of the children that receive treatment qualify for the free or reduced priced lunch program.

During 2004, the bank donated approximately \$3 thousand to Delaware Housing Coalition (DHC). The coalition works with governmental and non-profit groups to develop changes to policies that help better promote decent and affordable housing. The coalition seeks to empower individuals in regard to the changes taking place in public and assisted housing in Delaware's most economically challenged areas.

A total of \$5 thousand in donations was provided to Friendship House, Inc., since the previous evaluation. The donation helped fund two shelters and eight halfway houses that provide support to homeless and low-income people. In addition, \$3 thousand was provided to Gateway House in 2004. Gateway House serves Delaware's homeless with shelter and various initiatives aimed at restoring self esteem.

Approximately \$19 thousand was provided to Latin American Community Center (LACC) since the prior evaluation. Funds were primarily used to support the following: a 24-unit affordable apartment complex for low-income seniors and the LACC's Workforce Development program. The LACC indicated that typical clients are not proficient in English, are Latino immigrants with one to nine children, and have total household income of \$22 thousand or less. An additional \$5 thousand was provided to LACC Development Corporation (LACCDC) in 2005, to support financial literacy and housing counseling. The mission of the LACCDC is to serve as a catalyst to increase safe, affordable housing. LACCDC's programs include affordable housing for lower-income elderly, rehabilitation of vacant housing into affordable housing for low- and moderate-income first time homebuyers, preventing hazardous housing conditions, and helping individuals improve their overall financial condition.

Approximately \$5 thousand was provided to Lutheran Community Services. This organization provides interest-free loans to low-income individuals who are having difficulty making their mortgage or rent payments.

A \$1 thousand donation was provided to Mom's House. The grant supported the Mom's House learning center which is located in Wilmington. Mom's House provides programs that help single, lower-income parents continue their education by offering free childcare.

Approximately \$26 thousand in donations have been provided to National Council on Agricultural Life and Labor (NCALL) Research Fund, Inc. since the previous evaluation. The mission of this organization is to provide opportunities for safe, decent, affordable housing and improve housing conditions of low- and moderate-income people primarily in rural areas, including those in New Castle County.

Donations totaling approximately \$14 thousand were provided to Reading ASSIST Institution (RAI). RAI provides early support to children struggling to read. Approximately 50 percent of the children assisted by RAI are low- or moderate-income minority families.

A total of \$8 thousand was provided to Service Corps of Retired Executives Association (SCORE) since the previous evaluation. SCORE helps promote small businesses in Delaware. The organization's mission is to educate, counsel, and nurture the growth and development of small businesses in the underserved sectors of the community.

A donation of approximately \$3 thousand was provided to Sojourner's Place. The funding was used to help provide shelter, education, job training, and employment opportunities to the homeless.

A \$1 thousand donation was provided to People's Settlement Association to support this organization's housing redevelopment program. The program rehabilitates abandoned properties which are then sold to low- and moderate-income first time homebuyers.

Since the previous evaluation, a total of \$30 thousand was donated to Saint Francis Healthcare Services Foundation. The funding helped support the Saint Clare Medical Outreach van that delivers medical services to the homeless, poor, and medically underserved in the Wilmington area.

A total of \$14 thousand in donations were provided to West End Neighborhood House (WENH). The following are examples of some of this community development organization's accomplishments: provide food to families in need, enroll families in the HUD Certified Housing Counseling Program, help families obtain housing, assist foster care young adults obtain safe housing, and provide assistance to victims of Hurricane Katrina. The organization also helps individuals and families residing in transitional housing with the payment of security deposits, thus enabling them to move into more permanent housing. The agency also provides financial literacy and housing counseling programs.

In 2006, \$5 thousand in funds were provided to Wilmington Senior Center, Inc., to help support this organization's senior housing initiative which provides HUD-subsidized housing to lower income seniors.

A \$10 thousand donation was provided to the YWCA of New Castle County in 2005. The funding was used to support the YWCA's homeownership component of its Economic Advancement Education and Counseling programs, a synergistic group of services that help women and families achieve economic independence through financial literacy education, asset building, homeownership, and entrepreneurship. The goal of the program is to help economic disadvantaged families become empowered and obtain the ability to own a home.

A \$10 thousand donation was provided to Delaware Financial Literacy Institute (DFLI) in 2008. This funding was used to support DFLI's newsletter which is distributed quarterly to over 10 thousand area households. The newsletter provides information regarding free financial classes, events, and resources of the Money School. Over 50 percent of the individuals that participate in the financial classes and events advertised earn income defined as low or moderate.

The bank provided \$7 thousand to Ingleside Homes, Inc., to help cover operational costs. Ingleside Home, Inc. provides affordable housing, healthcare, and outreach serves to lower-income senior.

## **COMMUNITY DEVELOPMENT SERVICES**

A community development service is defined as a service that has a primary purpose of community development and relates to the provision of financial services. Overall, BNC provides a high level of community development services considering the bank's size and resources. The following provides examples of a number of the community development services provided:

A bank representative attended a local school within the bank's assessment area to work with the principal in an effort to increase student achievement and discuss employment. Approximately 80 percent of the students who attend the school are considered to be low- or moderate-income.

A bank representative worked with the Chesapeake Community Advisors, a consultant to the Wilmington Senior Center, to help develop the historic tax credit pro-forma. The Wilmington Senior Center provides HUD-subsidized housing to low-income seniors.

An affiliate employee worked with the First State Community Loan Fund to introduce a potential loan opportunity that will help facilitate the issuance of micro loans to the Hispanic population within BNC's assessment area. This employee took a leadership roll in assembling representatives from several banks within the state, along with representatives from the federal government, to work on this project. A substantial majority of the population this loan product will serve earns income at a level defined as low or moderate.

A bank representative attended two foreclosure prevention workshops within the bank's assessment area in an effort to provide technical assistance to borrowers facing foreclosure. The bank representative helped borrowers understand the terms of their existing mortgages and loss mitigation processes. While the workshop was opened to everyone regardless of income, a majority of the applicants earned income at a level defined as low or moderate.

A bank representative serves on the Board of Directors of the Greater Newark Boys and Girls Club. This individual's responsibilities include reviewing financial statements, evaluating the budget, and developing procedures to accommodate children of parents who are recently unemployed or homeless.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's record of complying with anti-discriminatory laws and regulations, including Equal Credit Opportunity is considered satisfactory. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.