

PUBLIC DISCLOSURE

April 14, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Bank Delaware
58311

16982 Kings Highway
Lewes, Delaware 19958

Federal Deposit Insurance Corporation
20 Exchange Place
New York, New York 10005

NOTE: This document is an evaluation of this 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. 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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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income individuals and neighborhoods, in a manner consistent with its resources and capabilities. The rating is supported by the following factors:

- The net loan-to-deposit (LTD) ratio is reasonable, given the assessment area credit needs and the bank's de-novo status, asset size, and financial condition.
- A substantial majority, 92 percent by number and 91 percent by dollar amount, of home mortgage and commercial loans originated during the review period are inside the assessment area.
- The geographic distribution of home mortgage and commercial loan originations reflects reasonable dispersion throughout the assessment area.
- The distribution of home mortgage and commercial loan originations to borrowers of different income levels and businesses of different sizes is reasonable, given the bank's de-novo status and the demographics of the assessment area.
- There have been no CRA complaints filed against the bank.

SCOPE OF EXAMINATION

This evaluation utilizes small institution examination procedures. The bank is not subject to the reporting requirements of the Home Mortgage Disclosure Act, and is not required to report small business loans for CRA; therefore, internal bank records are used to review originations.

The evaluation focuses on home mortgage and commercial loan originations. The bank primarily originates home equity lines of credit and home mortgage term loans secured by junior liens. Therefore, for this evaluation, home mortgage loan originations include all loans secured by one-to-four family residential properties, including term loans secured by first liens and junior liens, as well as home equity lines of credit. Commercial loans include commercial real estate loans, as well as commercial and industrial loans. Multi-family and consumer loans are not reviewed as these categories represent a small number and dollar amount, and their inclusion would have little impact on the bank's overall performance evaluation. The bank does not originate agricultural loans.

The full universe of home mortgage and commercial originations are reviewed for 2006 and 2007. The bank began operations mid-year in 2006; therefore, 2006 data represents only a partial year. Year-to-date 2008 lending data was not included since it had not yet been finalized by the bank. However, a brief review of the lending data revealed similar performance to 2007 levels.

DESCRIPTION OF INSTITUTION

Community Bank Delaware (CBD) is a de-novo state-chartered community bank headquartered in Lewes, Delaware. CBD was approved for Federal Deposit Insurance Corporation (FDIC) insurance on May 30, 2006, and opened its main branch and office on June 14, 2006. A second branch was opened in nearby Rehoboth in June 2007. Both branches are located in a beach resort community, along a highly commercialized corridor of Route 1. The institution does not have a holding company relationship or any affiliates.

The bank offers a full range of credit products. The bank's targeted population is primarily retirees. The bank also targets small businesses and professionals for both commercial deposit and borrowing needs. The bank offers extended banking hours to accommodate targeted segments of the market, opening at 7:30 am.

As of March 31, 2008, total assets are \$50 million, with total loans of \$34 million and deposits of \$38 million. The bank primarily engages in real estate secured lending, both residential and commercial. The loan portfolio composition is depicted in Table 1 below.

Table 1 - Loan Distribution		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	\$0	0
1-4 Family Residential	\$14,385	42
Multi-Family (5 or more) Residential	\$457	1
Commercial	\$14,123	42
Total Real Estate Loans	\$28,965	85
Commercial and Industrial	\$4,846	14
Consumer	\$378	1
Other	\$0	0
Less: Unearned Income	(\$0)	(0)
Total Loans	\$34,189	100

Source: Consolidated Report of Condition, March 31, 2008.

There are no legal impediments impacting the bank's ability to help meet the credit needs of the assessment area. However, de-novo institutions typically report losses in the first few years of operation. Reported losses for year-end 2006 and 2007 are (\$971 thousand) and (\$1 million), respectively. The corresponding Return on Average Asset (ROAA) ratios for the same time period are (10 percent) and (4 percent), respectively. As of March 31, 2008, the bank reported a (\$263 thousand) net loss with a corresponding ROAA ratio of (2 percent).

DESCRIPTION OF ASSESSMENT AREA

CRA requires financial institutions to define an assessment area 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. The bank's assessment area is in conformance with the CRA regulation and does not arbitrarily exclude low- and/or moderate-income areas.

CBD's assessment area is the whole-county of Sussex, Delaware, which is not located in a metropolitan statistical area (MSA). Sussex County is the southernmost county in Delaware and is largely rural with the exception of the beach resort areas along the Atlantic Coast. Sussex

County's economy is heavily dependent upon poultry production.

Income Information - The Department of Housing and Urban Development (HUD) annually adjusts the Median Family Income (MFI) from the most recent U.S. Census to arrive at an estimate that reflects current economic conditions. The HUD-adjusted MFI is used to determine the loan distribution by borrower income level. Income levels are calculated as follows: low-income represents less than 50 percent of the MFI, moderate-income represents at least 50 percent and less than 80 percent of the MFI, middle-income represents at least 80 percent and less than 120 percent of the MFI, and upper-income represents more than 120 percent of the MFI. The HUD-adjusted MFI for the assessment area for 2006 and 2007 was \$54 thousand and \$55 thousand, respectively.

There are 44 thousand families within Sussex County. According to the 2000 U.S. Census data, the percentage of low-, moderate-, middle-, and upper-income families is 18 percent, 20 percent, 24 percent, and 38 percent, respectively.

Census Tract Characteristics - Based upon the 2000 U.S. Census data, the assessment area includes 36 census tracts, of which 33 census tracts (92 percent) are middle-income and three census tracts (8 percent) are upper-income. There are no low- or moderate-income census tracts in Sussex County.

Population - According to the 2000 U.S. Census data, the population of Sussex County is 157 thousand. These figures represent a substantial increase, at 38 percent, in population since the 1990 U.S. Census. Sussex County experienced the greatest growth in population within Delaware since the 1990 census.

Housing - There are 93 thousand housing units in the assessment area, of which 54 percent are owner-occupied housing, 13 percent are rental-occupied units, and 33 percent are vacant. The high percentage of vacant homes is due to the high number of vacation homes in resort areas. By census tract income level, 90 percent of the owner-occupied housing units are located in middle-income census tracts and 10 percent in upper-income census tracts.

Business and Industry - Based upon information available from Dun & Bradstreet for 2007, there are 539 farms and 12 thousand non-farm establishments within the assessment area. The majority of businesses (67 percent) report earning gross annual revenues (GAR) of \$1 million or less and only 4 percent report revenues greater than \$1 million. However, 29 percent do not report revenues. By geography, 92 percent of the businesses are located in middle-income tracts and 8 percent in upper-income tracts. The area's two largest industries are services, at 31 percent, and retail trade at 19 percent. While tourism is responsible for employing a large number of residents in Sussex County, the largest employers are Perdue Farms, Inc. and Mountaire Farms, Inc, local poultry farms.

Competition – The bank is subject to intense competition for home mortgage and small business loans from other banks, mortgage and finance companies, savings and loan associations, and credit unions operating within the same assessment area. The bank’s market is dominated by financial institutions with assets in excess of \$1 billion and an out-of-state parent company (with the exception of Wilmington Trust Company, a \$10 billion bank headquartered in Wilmington, Delaware). These out-of-state banks include Citizens Bank, Wachovia Bank, and Chevy Chase Bank. Bank of Delmarva and County Bank are smaller banks competing in the area. Bank of Delmarva is headquartered in Salisbury, Maryland, while County Bank is headquartered in Rehoboth Beach.

Community Contacts – Interviews with three representatives from community organizations serving the assessment area were reviewed in conjunction with this CRA evaluation. First, a director of a local community development and affordable housing organization serving Sussex County states that there is a general credit need for home loans with flexible underwriting criteria. A president from a state-wide community-based development corporation indicates that Sussex County is in need of housing and that the current emphasis is on rehabilitating existing housing as opposed to new construction. Opportunities for financial institution participation include community development ventures through housing loan pools and/or equity funds and direct grants.

Lastly, an executive director from a state-wide community advocacy group notes that financial institutions should use their resources to develop creative solutions to end predatory lending. This contact says that both residential and consumer loan products are needed to bridge the gap between the prime and sub-prime borrower. The executive director further states that many elderly clients are in exotic mortgages with negative amortization and are unable to afford their loan payments. Also, while financial literacy is good, there is a larger need for fair loan products, especially products with low fees and low credit lines.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

An institution can service the credit needs of its community by making loans. Loans, for the most part, are funded through customer deposits maintained at the institution. A measurement of how well an institution makes loans in relation to the amount of deposits held is the net LTD ratio (total loans minus the allowance for loan losses divided by total deposits). CBD’s net LTD ratio is reasonable, given the assessment area credit needs and the bank’s de-novo status, asset size, and financial condition.

Using the eight quarters since the bank opened for business, the average LTD ratio is 59 percent. CBD's net LTD ratio has steadily increased each quarter since June 2006. As of March 31, 2008, the bank reported a net LTD ratio of 90 percent. For comparison, the bank's peer group (consisting of all FDIC-insured savings banks established in 2006 and having assets of less than \$750 million) reported a net LTD ratio of 95 percent as of March 31, 2008.

There are no other de-novo institutions or banks of similar asset size in the area in which to compare the net LTD ratio. Three local competitors (with asset sizes ranging from \$333 million to \$465 million) report average net LTD ratios for the same time period of 96 percent, 97 percent, and 120 percent; however, as noted, these banks are not de-novo institutions and are considerably larger banks than CBD.

Assessment Area Concentration

Lending performance is evaluated based on the number and dollar amount of home mortgage and commercial loans extended within the assessment area. A substantial majority of loans, by both number and dollar amount, are located in the assessment area. The lending distribution is shown below.

Table 2 - Distribution of Home Mortgage and Commercial 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 Mortgages										
2006	31	100	0	0	31	1,958	100	0	0	1,958
2007	66	90	7	10	73	10,311	89	1,253	11	11,564
Subtotal	97	93	7	7	104	12,269	91	1,253	9	13,522
Commercial Loans										
2006	14	82	3	18	17	2,655	84	521	16	3,176
2007	65	93	5	7	70	18,993	92	1,722	8	20,715
Subtotal	79	91	8	9	87	21,648	91	2,243	9	23,891
Total Loans Reviewed	176	92	15	8	191	33,917	91	3,496	9	37,413

Source: Bank records for 2006 (from opening in June through year-end) and 2007 (full year).

Since opening, management has achieved a high penetration percentage within the assessment area for both home mortgage and commercial loan originations. With regard to home mortgage lending, 93 percent by number and 91 percent by dollar amount of all origination were inside the

assessment area during the review period. With regard to commercial loans, 91 percent by both number and dollar amount were inside the assessment area during the review period. In summary, a substantial majority of originations were originated inside the assessment area with 92 percent by number and 91 percent by dollar volume of the total loans evaluated being inside the area.

Geographic Distribution of Loans

The institution is analyzed based on the geographic distribution of home mortgage and commercial loans within its assessment area. This criterion assesses the bank's performance in addressing area credit needs. Only loans extended within the assessment area are included in this analysis. As noted previously, there are no low- or moderate-income census tracts in the assessment area. Overall, the geographic distribution of home mortgage and commercial loans reflects reasonable dispersion throughout the assessment area.

Home Mortgage Lending - The geographic distribution of home mortgage loans is presented in Table 3. For comparative purposes, the percentage of owner-occupied housing units for each geography is also shown.

Table 3 – Distribution of Home Mortgages by Income Category of the Census Tract							
Census Tract Income Level	% of Total Owner-Occupied Housing Units	2006		2007		Total	
		#	%	#	%	#	%
Low	0	0	0	0	0	0	0
Moderate	0	0	0	0	0	0	0
Middle	90	24	77	58	88	82	85
Upper	10	7	23	8	12	15	15
Total	100	31	100	66	100	97	100

Source: 2000 U.S. Census data and bank records for 2006 (from opening in June through year-end) and 2007.

The geographic distribution of home mortgage loan originations reveals a higher percentage of loans made in middle-income census tracts in 2007 compared to 2006 (88 percent versus 77 percent). Also, 2007 origination percentages are similar to owner-occupied housing unit percentages for each geography. Overall, for the review period, 82 credits (85 percent) were originated in middle-income census tracts and 15 credits (15 percent) were originated in upper-income census tracts. An analysis of lending by dollar volume reveals similar results.

Commercial Lending – Table 4 below illustrates the distribution of commercial loans within the assessment area by census tract income level for 2006 and 2007.

Table 4 – Distribution of Commercial Loans by Income Category of the Census Tract						
Census Tract Income Level	2006		2007		Total	
	#	%	#	%	#	%
Low	0	0	0	0	0	0
Moderate	0	0	0	0	0	0
Middle	11	79	58	89	69	87
Upper	3	21	7	11	10	13
Total	14	100	65	100	79	100

Source: Bank records for 2006 (from opening in June through year-end) and 2007 (full year).

Of the 79 commercial loans originated inside the assessment area, the geographic distribution is as follows: 69 loans originated in middle-income census tracts (87 percent) and 10 loans originated in upper-income census tracts (13 percent). The 2007 percentage of middle-income census tract originations is higher than the 2006 percentage of middle-income census tract originations. The geographic distribution of commercial loans reflects a satisfactory dispersion throughout the bank’s assessment area. An analysis of lending by dollar volume reveals similar results.

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

Home mortgage and commercial loans are analyzed to determine the extent to which the bank addresses the credit needs of the areas’ residents and businesses. The analysis includes only loans extended inside the assessment area. Overall, the distribution of in-area loans to borrowers of different income levels and businesses of different sizes is reasonable given the demographics of the assessment area.

Home Mortgage Lending – Table 5 below details the distribution of home mortgage loans within the assessment area by borrower income, and only includes loans extended inside the assessment area. For comparative purposes, the table also shows the percentage of families by income level. Overall, the distribution of borrowers reflects reasonable penetration among individuals of different incomes given the bank’s de-novo status and the demographics of the assessment area.

Table 5 – Distribution of Home Mortgages by Borrower Income							
Borrower Income Level	% of Total Families	2006		2007		Total	
		#	%	#	%	#	%
Low	18	1	3	3	5	4	4
Moderate	20	1	3	7	11	8	8
Middle*	24	3	10	9	14	12	13
Upper	38	26	84	47	70	73	75
Total	100	31	100	66	100	97	100

Source: 2000 U.S. Census data and bank records for 2006 and year-to-date 2007.

Of the 96 in-area home mortgage loan originations, 4 percent are extended to low-income borrowers and 8 percent are extended to moderate-income borrowers, for a total of 12 percent to low- and moderate-income borrowers. While performance to low- and moderate-income borrowers is less than the percentage of low- and moderate-income families, this de-novo bank's lending performance to low- and moderate-income borrowers improved in 2007 compared to 2006. Additionally, several large investor/business purpose loans secured by residential property are reflected in the percentage of loans to upper-income borrowers. An analysis of lending by dollar volume reveals similar results.

Commercial Lending – Commercial loan originations are analyzed for distribution among businesses of different revenue sizes. Also, 2007 commercial loan originations are analyzed by loan size, regardless of the revenue size, as a proxy for the size of the businesses being financed. Overall, the bank demonstrates a satisfactory record of lending relatively small dollar amounts to businesses with gross annual revenues (GAR) less than \$1 million.

An analysis of the 14 in-area commercial loans made in 2006 shows 10 loans (71 percent) loans to businesses with GAR of \$1 million or less and 4 loans (29 percent) to businesses with GAR greater than \$1 million. In 2007, the percentage by number and dollar amount of in-area commercial loans originated to businesses with GAR of \$1 million or less increased. Of the 65 in-area commercial loans made in 2007, 49 loans (75 percent) are to businesses with GAR of \$1 million or less. Overall, of the 79 in-area commercial loans for the review period, 59 loans (75 percent) are to businesses with GAR of \$1 million or less.

In 2007, the bank made 41 loans in amounts less than \$250 thousand, 14 loans in amounts of \$250 thousand but less than \$500 thousand, 7 loans in amounts of \$500 thousand but less than \$1

million, and 3 loans of \$1 million or more. In summary, more than half (63 percent) were in amounts under \$250 thousand, indicating that the bank is serving businesses of different revenue sizes.

CRA Investments and Services – As a means to supplement the bank’s direct lending efforts, the bank joined the Delaware Community Investment Corporation (DCIC). DCIC is an independent non-profit corporation that collaborates with private banks, public and private developers, and public agencies to create affordable housing for individuals, families, the disabled, and the elderly. DCIC provides long-term permanent financing for commercial real estate projects located in areas targeted for revitalization, as well as short-term financing for planned revitalization projects. DCIC has developments throughout the State of Delaware, including many projects in Sussex County.

The bank has invested \$100 thousand for a three-year term into DCIC’s Housing Loan Fund V; to-date there have been no disbursement requests from DCIC. Also, the bank’s Chief Lending Officer/CRA Officer serves on DCIC’s Loan Committee.

Response to Complaints

No CRA-related complaints have been received during the evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Bank lending policies and practices are reviewed during the examination to ensure sufficient policies and procedures are in place to safeguard against violations. No evidence of discriminatory or other illegal credit practices has been identified.