

# **PUBLIC DISCLOSURE**

**January 29, 2009**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**County Bank  
33009**

**19927 Shuttle Road  
Rehoboth Beach, Delaware 19971**

**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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## 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 assessment area, 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 assessment area.

*This document is an evaluation of the CRA performance of **County Bank** prepared by the **Federal Deposit Insurance Corporation (FDIC)**, the institution's supervisory agency, as of **January 29, 2009**. 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: Satisfactory.**

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

**The Community Development Test 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, in a manner consistent with its resources and capabilities. The rating is supported by the following factors:

- The average net loan-to-deposit (LTD) ratio was more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's LTD ratio compared favorably to peer bank's LTD ratios, as well as a similarly situated institution.
- A majority of home mortgage and commercial loans were originated inside the assessment area during the review period. A total of 83 percent of loans by number and 70 percent by dollar amount were originated inside the assessment area during the review period.
- The distribution of loans within the designated assessment area to borrowers of different income levels and businesses of different sizes was reasonable given the demographics of the assessment area.
- The geographic distribution of home mortgage and commercial loans reflected reasonable dispersion throughout the assessment area.
- There were no CRA complaints filed against the bank since the previous CRA evaluation.
- The bank's community development performance demonstrated adequate responsiveness to community development needs of its assessment area; considering the institution's size, capacity, and the need and availability of such opportunities in the assessment area.

## SCOPE OF EXAMINATION

The institution's CRA performance was evaluated using Intermediate Small Institution examination procedures. These procedures utilized two performance tests: the Lending Test and the Community Development Test. A full-scope review was conducted on the bank's CRA performance within its designated assessment area.

The Lending Test evaluated County Bank's performance pursuant to the following criteria: LTD ratio, lending in the assessment area, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, and the bank's record of taking action in response to CRA complaints. The analysis focused on the bank's two major product lines: home mortgage loans reported pursuant to the Home Mortgage Disclosure Act (HMDA) and commercial loans. Loans made in 2007 and 2008 are included in the review.

Based upon the bank's branch locations, County Bank is not required to report property location data relative to HMDA. As such, for HMDA loans, lending in the assessment area, lending to borrowers of different incomes and businesses of different sizes, and geographic distribution of loans were analyzed using a sample of originated loans. For 2007, the sample included 31 loans totaling \$10 million from a universe of 95 loans totaling \$23 million. The sample for 2008 was 35 loans totaling \$9 million from a universe of 97 loans totaling \$27 million. Additionally, County Bank is not required to collect and report commercial loans for CRA. While the review of commercial loans for lending in the assessment area and geographic distribution of loans included the universe of commercial loans made in 2007 and 2008; the borrower distribution analysis was based upon a sample of commercial loans made inside the assessment area, 40 loans in 2007 and 40 in 2008. Bank records could not support the revenue distribution of the entire universe.

Given the bank's business strategy and composition of its loan portfolio, commercial loans were weighed more heavily in the evaluation. Consumer loans and agricultural loans were not evaluated as their inclusion would have little impact on the bank's overall performance evaluation.

The Community Development Test evaluated County Bank's responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, considering the institution's capacity and the need and availability of community development opportunities in the assessment area. The Community Development Test evaluation period covered activities since the September 3, 2002 evaluation.

## DESCRIPTION OF INSTITUTION

County Bank is a state-chartered, independent financial institution headquartered in Rehoboth Beach, Sussex County, Delaware. The institution, which began operations in 1990, is a full service community bank. The bank's primary business is commercial and residential lending.

In addition to the main office which also serves as the institution's corporate headquarters, the bank maintains eight branches; one in Kent County and seven in Sussex County. The Kent County branch and one Sussex County branch are located in upper-income census tracts; the remaining seven branches are located in middle-income census tracts. A new office opened in December 2004 in a middle-income census tract in Milton, Sussex County. No offices were closed since the previous evaluation. All locations are full-service and each has an automated teller machine (ATM). Hours of operation are considered reasonable and the institution is open Saturday mornings.

Based on the December 31, 2008 Consolidated Report of Condition and Income (Call Report,) the bank's total assets and total loans equaled \$389 million and \$339 million, respectively. The loan distribution is detailed in **Table 1**.

| <b>Table 1 – Loan Distribution as of December 31, 2008</b> |                                 |                                   |
|--|---------------------------------|-----------------------------------|
| <b>Loan Type</b>   | <b>Dollar Amount<br/>(000s)</b> | <b>Percent of Total<br/>Loans</b> |
| 1-4 Family Residential                                     | 55,630                          | 16                                |
| Construction & Land Development                            | 146,548                         | 43                                |
| Multifamily (5 or more)                                    | 10,290                          | 3                                 |
| Farmland   | 8,609                           | 3                                 |
| Commercial   | 101,684                         | 30                                |
| <b>Total Real Estate Loans</b>                             | <b>322,761</b>                  | <b>95</b>                         |
| Commercial and Industrial                                  | 14,555                          | 4                                 |
| Consumer   | 1,471                           | 1                                 |
| Lease Financing Receivables                                | 0                               | 0                                 |
| Other Loans  | 323                             | 0                                 |
| <b>Total Loans</b>   | <b>339,110</b>                  | <b>100</b>                        |

*Source: Call Report (12/31/08)*

The institution is primarily a real estate lender with 95 percent of the loan portfolio secured by real estate. Commercial real estate loans represent 30 percent of the portfolio, which is nearly twice the amount of loans secured by one-to-four family residential properties at 16 percent. A review of loans reported pursuant to HMDA revealed that the majority of home purchase and refinance loans were secured by non-owner occupied properties (75 percent); while the majority of the home improvement loans were secured by owner-occupied properties (92 percent).

There were no legal or financial impediments that would impact the bank's ability to meet the credit needs of the assessment area. At the previous CRA evaluation dated September 3, 2002, a CRA rating of Satisfactory was assigned using Small Bank CRA examination procedures.

## **DESCRIPTION OF ASSESSMENT AREA**

County Bank's assessment area includes all of Sussex County, Delaware (36 census tracts) and the two southernmost census tracts in Kent County, Delaware. Kent County is part of the Dover Metropolitan Statistical Area (MSA) 20100; Sussex County is not located within an MSA. Sussex County is the southernmost county in Delaware and is largely rural with the exception of the resort areas along the Atlantic Coast.

According to information available from [sussexcountyde.gov](http://sussexcountyde.gov), Sussex County is Delaware's largest county, spanning 938 square miles. The county is home to numerous seaside resorts, small towns, industry, and agriculture. Along the beach, tourism is strong and wealthy communities exist. Western Sussex County is the backbone of Delaware's agriculture industry with more acres of arable land under cultivation than anywhere else in the state.

Historically, Sussex County is most famous for its poultry farming and is also a large soybean producer. However, farmland acres and the number of farms in the county have decreased over the past few years as the county lost nearly 10 and 11 percent of its farmland acres and farms, respectively, between 1997 and 2002. The trend is attributed to the development of farmland and the consolidation of smaller farms into larger farm holdings. Nonetheless, the county's economy is growing, due to its location, geography, and quality of life. According to the 2007 Sussex County Comprehensive Plan, the tourism, wholesale and retail trade sectors are driving job growth. It was noted that these three economic sectors include a higher percentage of low paying jobs than most other areas of business. The average annual wage of Sussex County's non-farm workers was \$30,100 in 2005, well below the median family income from that year of \$54,900. The top employers in Sussex County represent a variety of industries, from poultry processing plants, banks, utilities, health care facilities, and government. The largest employers in the area include Mountaire Farms of Delaware, Inc.; Perdue Products, Inc; Bayhealth Medical Center, Discover Bank and Beebe Medical Center.

*Census Tract Characteristics* - Based on 2000 U.S. Census data, the assessment area includes 38 census tracts, of which 1 is moderate-income, 33 are middle-income, and 4 are upper-income; there are no low-income census tracts in the assessment area. The moderate-income census tract is located in Kent County. While the assessment area’s census tracts are predominantly middle-income, management indicated that this area includes large pockets of low- to moderate-income workers from the poultry and tourism industries.

*Population* - According to the 2000 U.S. census data, the total population of the assessment area was 161,663, of which 45,465 were families. The distribution of families by income revealed that 18 percent are low-income, 20 percent moderate-income, 24 percent middle-income and 38 percent upper-income.

*Family Income* – The Department of Housing and Urban Development (HUD) annually adjusts the median family income (MFI) from the most recent U.S. Census data. The HUD-adjusted MFI was used to determine the distribution of HMDA loans by borrower income level. The HUD-adjusted MFI utilized for the period reviewed is shown in **Table 2**.

| <b>Table 2 – Median Family Income</b> |             |             |
|---------------------------------------|-------------|-------------|
| <b>Assessment Area</b>                | <b>2007</b> | <b>2008</b> |
| Kent County/MSA 20100                 | \$58,700    | \$55,300    |
| Sussex County/Non-Metro               | \$55,200    | \$54,700    |

*Source: HUD-Adjusted MFIs*

*Housing* - The assessment area consists of 95,263 housing units of which 54 percent are owner-occupied, 14 percent are rental units, and 32 percent are vacant. The high vacancy percentage is driven by the number of vacation homes in the resort area. Consistent with assessment area demographics, the majority of owner-occupied housing units, or 76 percent, is located in middle-income census tracts, followed by 22 percent in upper-income, and 2 percent in the moderate-income census tract. The nominal percentage of assessment area owner-occupied units located in the moderate-income census tract suggests little opportunity for home mortgage lending.

*Business and Industry* - According to information available from Dun and Bradstreet for 2008, the assessment area included 13,165 non-farm businesses; 66 percent of businesses that reported revenues showed revenues of \$1 million or less. The geographic distribution of small businesses within the assessment area showed that 2 percent, 79 percent, and 19 percent are located in moderate-, middle-, and upper-income census tracts, respectively. Similar to the geographic distribution of owner-occupied housing units, the nominal percentage of assessment area businesses located in the moderate-income census tract suggests little opportunity for originating loans in this tract.

*Community Contact* – As part of this evaluation, information that was obtained from an interview conducted with an individual knowledgeable of local community development and housing needs within the assessment area was reviewed. The contact noted the most pressing issue facing Sussex County is the lack of affordable housing; families earning less than 80 percent of the area's MFI are basically shut out of homeownership through conventional means. Additionally, information available from Sussex County for 2005 shows that 52 percent of the jobs in Sussex County were classified as "low paying" or earning less than \$11 per hour. Given that the median home price in the county was greater than \$275,000 in 2005, housing affordability is a major concern.

The bank's assessment area, as currently defined, is reasonable as it contains only whole geographies, includes the bank's main office and branch facilities, and does not arbitrarily exclude low- and moderate-income geographies.

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

### **LENDING TEST**

County Bank's performance under the Lending Test was evaluated pursuant to the following criteria: LTD ratio, lending inside the assessment area, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, and the bank's record of taking action in response to CRA complaints. Each of the criteria is described below.

#### **LTD Ratio**

An institution can service the credit needs of its community by making loans. Loans, for the most part, are funded through bank customer deposits maintained by the institution. A measurement of how well an institution makes loans in relation to the amount of deposits held is the net LTD ratio. Overall, the bank's net LTD ratio was more than reasonable, given the bank's size, financial condition, and assessment area credit needs. The net LTD compared favorably to both a similar situated institution and peer group's LTD ratio.

Based on the 26 quarters since the previous evaluation, the bank's average net LTD ratio was 93 percent. The December 31, 2008 net LTD ratio of 111 percent represents the highest ratio during the review period. Management indicated that the downturn in the economy resulted in increased business for the bank, as several local businesses came to County Bank to refinance loans that were being called at larger financial institutions. Deposit balances also increased, as the commercial customers transferred their entire banking relationship to County Bank.

County Bank's net LTD ratio was compared to a financial institution with similar asset size and branch locations in Sussex County, Delaware. That institution's net LTD ratio for the same time period was 87 percent. This institution's net LTD ratio at December 31, 2008 was 98 percent. The bank's net LTD ratio also compares favorably to the bank's Uniform Bank Performance

Report (UBPR) peer group's net LTD ratio of 89 percent as of December 31, 2008. Additionally, County Bank's net LTD for years ending December 31, 2003 through 2007 was significantly higher than the peer group. The bank's peer group was defined as all insured commercial banks having assets between \$300 million and \$1 billion.

The year-end LTD ratios since the prior performance evaluations are presented in **Table 3**.

| <b>Table 3 – Loan-to-Deposit Ratio</b> |                        |                               |                       |
|--|------------------------|-------------------------------|-----------------------|
| <b>Date</b>                            | <b>County Bank LTD</b> | <b>Similarly Situated LTD</b> | <b>Peer Group LTD</b> |
| 12/31/2002                             | 87                     | 91                            | 90                    |
| 12/31/2003                             | 98                     | 94                            | 90                    |
| 12/31/2004                             | 94                     | 79                            | 78                    |
| 12/31/2005                             | 98                     | 91                            | 85                    |
| 12/31/2006                             | 97                     | 92                            | 87                    |
| 12/31/2007                             | 99                     | 99                            | 89                    |
| 12/31/2008                             | 111                    | 98                            | 89                    |

*Source: Consolidated Report of Condition*

### **Lending Inside the Assessment Area**

The bank's lending performance was evaluated based on the number and dollar amount of commercial and HMDA loans extended within the assessment area. As indicated in the scope comment, HMDA loans were utilized in the analysis through sampling procedures while the entire universe of commercial loans is depicted. During the review period, a majority of loans were originated inside the assessment area, by the number and dollar amount of loans. In summary, 83 percent by number and 70 percent by dollar volume of HMDA and commercial loans were originated inside the assessment area. The lending distribution is shown in **Table 4**.

**Table 4 - Distribution of Loans Inside and Outside of the Assessment Area**

| Loan Category or Type | Number of Loans |           |           |           |            | Dollars in Loans (000s) |           |               |           |                |
|-----------------------|-----------------|-----------|-----------|-----------|------------|-------------------------|-----------|---------------|-----------|----------------|
|                       | Inside          |           | Outside   |           | Total      | Inside                  |           | Outside       |           | Total          |
|                       | #               | %         | #         | %         |            | \$                      | %         | \$            | %         |                |
| <b>Commercial</b>     |                 |           |           |           |            |                         |           |               |           |                |
| <b>2007</b>           | 146             | 84        | 28        | 16        | 174        | 28,186                  | 71        | 11,697        | 29        | 39,883         |
| <b>2008</b>           | 124             | 79        | 33        | 21        | 157        | 67,782                  | 74        | 23,468        | 26        | 91,250         |
| <b>Subtotal</b>       | <b>270</b>      | <b>82</b> | <b>61</b> | <b>18</b> | <b>331</b> | <b>95,968</b>           | <b>73</b> | <b>35,165</b> | <b>27</b> | <b>131,133</b> |
| <b>HMDA</b>           |                 |           |           |           |            |                         |           |               |           |                |
| <b>2007</b>           | 28              | 90        | 3         | 10        | 31         | 5,170                   | 52        | 4,768         | 48        | 9,938          |
| <b>2008</b>           | 30              | 86        | 5         | 14        | 35         | 4,321                   | 50        | 4,359         | 50        | 8,680          |
| <b>Subtotal</b>       | <b>58</b>       | <b>88</b> | <b>8</b>  | <b>12</b> | <b>66</b>  | <b>9,491</b>            | <b>51</b> | <b>9,127</b>  | <b>49</b> | <b>18,618</b>  |
| <b>Total</b>          | <b>328</b>      | <b>83</b> | <b>69</b> | <b>17</b> | <b>397</b> | <b>105,459</b>          | <b>70</b> | <b>44,292</b> | <b>30</b> | <b>149,751</b> |

Source: HMDA Disclosure Statement (2007), HMDA Data Collection (2008) and Bank Records

The percentage of commercial loans originated by number and dollar volume inside the assessment area remained relatively stable during the review period. While the number of commercial loans made between 2007 and 2008 experienced a slight decline (17 loans, or 10 percent), there was a significant increase (\$51 million or 129 percent) in the dollar volume of commercial loans between years. This was partially attributed to the purchase of two loans totaling \$10 million and the addition of a commercial loan officer with established relationships. Additionally, lending personnel indicated that some larger, regional banks began calling commercial loans during that time period, and as a result, County Bank was able to capture some of those loans.

The percentage of the number and dollar volume of HMDA loans originated inside the assessment area for the review period is relatively stable. The lower percentage of the dollar amount of HMDA loans originated inside the assessment area relative to the number is attributed to the samples including one large dollar amount loan made outside the assessment area for each year. Specifically, in 2007 and 2008, the bank made a \$4.4 million loan and a \$2.8 million loan outside the bank's assessment area, respectively. Both loans were secured by multi-family/non-owner occupied properties.

## Lending to Borrowers of Different Incomes and Businesses of Different Sizes

County Bank's HMDA and commercial loans were analyzed to determine the extent to which the bank addressed the credit needs of the families and businesses residing or operating within the bank's assessment area. The analysis only included loans extended inside the assessment area. Overall, the distribution of loans within the designated assessment area to borrowers of different income levels and businesses of different sizes was reasonable given the demographics of the assessment area. The distribution of the dollar volume of loans reflected similar results.

*Commercial Lending* - In 2007 and 2008, the bank made 78 and 85 percent, respectively, of in-area commercial loans to businesses with gross annual revenues (GARs) of \$1 million or less. This performance compared favorably to demographic data which shows that 66 percent of assessment area businesses reported GARs of \$1 million or less. **Table 5** shows the distribution of commercial loans by GARs of the business. Demographic data is included for comparison purposes. As previously stated, the below data represents the sample of loans (40 loans in 2007, and 40 loans in 2008), and not the universe as depicted in the other lending characteristics, as this information was not readily available for all loans.

| <b>Table 5 - Distribution of Commercial Business Loans by Gross Annual Revenues of Business</b> |   |             |            |             |            |
|---|---|-------------|------------|-------------|------------|
| <b>Gross Annual Revenues<br/>(000s)</b>   | <b>% of Assessment Area<br/>Businesses Reporting<br/>Gross Annual Revenue</b> | <b>2007</b> |            | <b>2008</b> |            |
|   |   | <b>#</b>    | <b>%</b>   | <b>#</b>    | <b>%</b>   |
| <b>≤ \$1,000</b>  | 66  | 31          | 78         | 34          | 85         |
| <b>&gt; \$1,000 or Not<br/>Available</b>  | 34  | 9           | 22         | 6           | 15         |
| <b>Total</b>  | <b>100</b>  | <b>40</b>   | <b>100</b> | <b>40</b>   | <b>100</b> |

Source: Bank Records and Dun & Bradstreet (2008)

*HMDA Lending* – **Table 6** details the distribution of HMDA loans originated within the assessment area by borrower income. For comparative purposes, the table shows the percentage of families within the assessment area by family income level and the percentage of aggregate home mortgage loans extended by all lenders within the assessment area for 2007.

| <b>Table 6 - Distribution of HMDA Loans by Borrower Income</b> |                            |                                     |             |            |             |            |
|--|----------------------------|-------------------------------------|-------------|------------|-------------|------------|
| <b>Borrower Income Level</b>                                   | <b>% of Total Families</b> | <b>2007 Aggregate Data (% of #)</b> | <b>2007</b> |            | <b>2008</b> |            |
|  |                            |                                     | <b>#</b>    | <b>%</b>   | <b>#</b>    | <b>%</b>   |
| <b>Low</b>   | 18                         | 3                                   | 4           | 14         | 3           | 10         |
| <b>Moderate</b>  | 20                         | 12                                  | 1           | 4          | 4           | 13         |
| <b>Middle</b>  | 24                         | 20                                  | 8           | 28         | 6           | 20         |
| <b>Upper</b>   | 38                         | 61                                  | 11          | 40         | 9           | 30         |
| <b>\$0/NA Income</b>   | 0                          | 4                                   | 4           | 14         | 8           | 27         |
| <b>Total</b>   | <b>100</b>                 | <b>100</b>                          | <b>28</b>   | <b>100</b> | <b>30</b>   | <b>100</b> |

*Source: 2000 U.S. Census, HMDA Disclosure Statement (2007), 2008 HMDA data collection, and 2007 HMDA Aggregate Data.*

While County Bank's performance relative to lending to low-income borrowers in 2007 compares favorably to aggregate data, lending levels are below demographic data. The percentage of the number of loans originated to moderate-income borrowers in 2007 is significantly below both aggregate and demographic data; however, improvement in the percentage of loans made to moderate-income borrowers in 2008 is noted. The bank's lending percentages to low- and moderate-income families for 2007 and 2008, and the 2007 aggregate data are all below demographic data.

## Geographic Distribution of Loans

The institution's performance was analyzed based on the geographic distribution of its commercial and HMDA loans within its assessment area. This criterion assesses the bank's performance in addressing the credit needs in the assessment area's moderate-, middle- and upper-income census tracts. Only loans extended within the assessment area were included in this analysis. Overall, the geographic distribution of commercial and HMDA loans reflected reasonable dispersion throughout the assessment area. The distribution of the dollar volume of loans showed similar results.

*Commercial Lending* - The geographic distribution of commercial loans is presented in **Table 7**. For comparative purposes, the percentage of businesses within the income categories of census tracts is displayed. Bank performance in 2007 and 2008 compares with demographic data.

| <b>Table 7 - Distribution of Commercial Loans by Income Category of the Census Tract</b> |  |             |            |             |            |
|--|--|-------------|------------|-------------|------------|
| <b>Census Tract<br/>Income Level</b>   | <b>% of Assessment<br/>Area Businesses</b> | <b>2007</b> |            | <b>2008</b> |            |
|  |  | <b>#</b>    | <b>%</b>   | <b>#</b>    | <b>%</b>   |
| <b>Low</b>   | 0  | 0           | 0          | 0           | 0          |
| <b>Moderate</b>  | 2  | 3           | 2          | 4           | 3          |
| <b>Middle</b>  | 79   | 115         | 79         | 94          | 76         |
| <b>Upper</b>   | 19   | 28          | 19         | 26          | 21         |
| <b>\$0/NA Income</b>   | 0  | 0           | 0          | 0           | 0          |
| <b>Total</b>   | <b>100</b>                                 | <b>146</b>  | <b>100</b> | <b>124</b>  | <b>100</b> |

*Source: Dun & Bradstreet (2008) and Bank Records*

*HMDA Lending* – The bank's assessment area does not include any low-income census tracts. Additionally, given the minimal percentage of owner-occupied housing units in moderate-income census tracts, opportunities for lending within the moderate-income census tract are limited. The geographic distribution of HMDA loans that were sampled is presented in **Table 8**. For comparative purposes, the percentage of owner-occupied housing units located in each geographic income category and aggregate lending data for 2007 was included.

**Table 8 – Distribution of HMDA Loans by Income Category of the Census Tract**

| Census Tract<br>Income Level | % of Total<br>Owner-Occupied<br>Housing Units | 2007<br>Aggregate Data<br>(% of #) | 2007      |            | 2008      |            |
|------------------------------|---|------------------------------------|-----------|------------|-----------|------------|
|                              |   |                                    | #         | %          | #         | %          |
| <b>Low</b>                   | 0   | 0                                  | 0         | 0          | 0         | 0          |
| <b>Moderate</b>              | 2   | 1                                  | 0         | 0          | 1         | 3          |
| <b>Middle</b>                | 76  | 84                                 | 27        | 96         | 28        | 94         |
| <b>Upper</b>                 | 22  | 15                                 | 1         | 4          | 1         | 3          |
| <b>\$0/NA Income</b>         | 0   | 0                                  | 0         | 0          | 0         | 0          |
| <b>Total</b>                 | <b>100</b>                                    | <b>100</b>                         | <b>28</b> | <b>100</b> | <b>30</b> | <b>100</b> |

*Source: 2000 U.S. Census, HMDA Disclosure Statement (2007), 2008 HMDA data collection, and 2007 HMDA Aggregate Data.*

An analysis of the geographic distribution of HMDA loans shows that the majority of loans made by the bank and aggregate lenders in 2007 were made in middle-income census tracts, consistent with assessment area demographics. The geographic distribution of loans for 2008 shows one loan originated inside the moderate-income census tract.

### **Response to Complaints**

No CRA-related complaints were received during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development Test evaluates the institution's community development loans, qualified investments, and community development services. The adequacy of the bank's responsiveness to assessment area and community development needs was evaluated based on the bank's capacity for community development activities, the need for community development activities within the assessment area, and the availability of community development opportunities in the assessment area. As an Intermediate Small Institution, County Bank has the flexibility to allocate its resources among community development loans, qualified investments, and community development services in amounts that it reasonably determines are most responsive to community development needs and opportunities.

Community development activities include: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income tracts.

County Bank's community development performance demonstrated adequate responsiveness to community development needs of its assessment area, considering the institution's size and capacity and the need and availability of such opportunities in the assessment area. Community development performance was demonstrated through an adequate level of community development loans, qualified investments, and community development services. The following is an analysis of the bank's community development activities.

### **Community Development Lending**

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or residential mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

Given the bank's resources and capacity, County Bank originated an adequate level of community development loans during the review period of slightly more than six years. Specifically, County Bank made a total of 14 community development loans and commitments totaling \$7.6 million of which approximately 63 percent was inside the assessment area. The loans supported the creation of affordable housing and economic redevelopment as well as financed commercial entities that contributed to the revitalization of the assessment area and the entire State of Delaware. The following is a discussion of each loan:

County Bank made seven commitments totaling \$3 million in three funds created by the Delaware Community Investment Corporation (DCIC) to finance the development of affordable housing, provide long-term financing for commercial real estate projects that contribute to the revitalization of Delaware's communities and provide short-term financing for site acquisition and bridge financing for projects located in areas targeted for revitalization. The funds are detailed below:

- *Housing Fund I, II, III, IV and V* - This program provides long-term permanent financing to nonprofit and for-profit developers for the development of affordable housing for individuals and families, the disabled, and the elderly. Since 1994, DCIC has established five funds totaling \$103 million. Through the programs, 60 developments have been financed, providing over 4,000 units of housing. The developments are located throughout the State. The bank made a total of \$2.5 million in commitments to the five housing funds.
- *The Community Investment Loan Fund Program* - Established in 1996 to provide long-term financing for commercial real estate projects that contribute to the revitalization of Delaware's communities. According to DCIC's 2007 Annual Report, since 1996, eight revitalization developments have been funded, including a day care center, three charter schools, a community center, a head start program, a medical center, and office space for two nonprofit organizations. The institution made a \$250,000 commitment to this fund.
- *The Urban Renewal loan Fund* - Established in 1998 to provide short-term financing for site acquisition and bridge financing for projects located in areas targeted for revitalization. Financing through the program is limited to nonprofit organizations and government agencies. The program is responsible for the creation of 165 units of housing and commercial space, an arts center and a theater program. County Bank made a \$250,000 commitment to this fund.

The bank has also supported a nonprofit affordable housing development organization located in Sussex County by providing \$1.6 million in funding for various purposes during the period reviewed. The organization's mission is to provide decent, safe, and sanitary housing for low- to moderate-income households in Kent and Sussex Counties, Delaware. The specific loans to the non-profit are detailed as follows:

- \$100,000 unsecured line of credit that supported the development of 50 single family homes for low- and moderate-income Sussex County individuals and families,
- \$700,000 loan that was used to acquire 42 acres of land targeted for the development of 96 lots for low- and moderate-income housing, and
- Two unsecured letters of credit totaling \$812,922 to support the creation of a 9 building, 36-unit low-income housing project.

County Bank also renewed a \$100,000 commercial line of credit to a Sussex County historical society. The funds will be used to restore a historical house in an effort to improve the town's appearance, thereby increasing economic development. The restoration is part of an overall formal plan developed by the local government's redevelopment corporation to revitalize the western Sussex County town.

The bank provided a \$100,000 line of credit to support the construction of an addition to a pregnancy care center located in the assessment area. The nonprofit center is dedicated to giving up-to-date pregnancy information to women in need. Pregnancy and other medical tests and evaluations are provided free of charge. The majority of clients are low and moderate-income.

The bank made a \$2.8 million loan to finance the acquisition of a 52-unit town home project in Dover, Kent County, Delaware. The rental housing site is identified in the Delaware State Housing Authority's 2008-2009 Affordable Rental Housing Sites Directory as "affordable." Affordable is defined as units that offer lower than market rate rents to families and individuals with modest incomes. While this loan was made outside the assessment area, it is considered as the bank adequately met community development loan needs inside its assessment area.

### **Qualified Investments**

A qualified investment for the purposes of this evaluation is a lawful investment, deposit, donation membership share, or grant that has community development as its primary purpose.

Overall, County Bank's level of qualified investments during the evaluation period showed an adequate responsiveness to community development needs considering the institution's size, capacity, and constraints. The bank made \$3.5 million and \$30,550 in qualified investments and grants, respectively, in the last six years since the previous CRA evaluation, representing 24 percent of total securities and 1 percent of total assets as of December 31, 2008. The majority of investments and grants directly address the area's need for affordable housing.

#### *Investments*

The bank made a total of \$3.5 million in equity investments in several funds developed by the DCIC. The Equity Fund was established to encourage equity investment in low-income housing projects that qualify for federal low income housing tax credits. Investors receive current tax benefits in the form of tax credits and developers of low-income housing are provided with a predictable equity generating process when accessing the Fund. Equity Fund investments are restricted to Delaware developments only and are available to for-profit and nonprofit developers. DCIC was established in 1994 as a multi-bank community development corporation. Member bank investors that invest in a DCIC equity fund receive a dollar-for-dollar credit against their income tax. Since inception, the program has provided 2,520 units in 40 developments of housing for families, seniors, the homeless and those with special needs.

## *Grants*

During the evaluation period, the bank made 40 qualified grants totaling \$30,550 within the assessment area. Examples of some of the grants that meet community development needs are detailed below:

*Milford Housing Development Corporation (\$8,000)* – A nonprofit affordable housing development organization located in Sussex County. The organization’s mission is to provide decent, safe, and sanitary housing for low to moderate income households in Kent and Sussex Counties, Delaware.

*Diamond State Community Land Trust [DSCLT (\$1,000)]* - Formed in 2006, the organization helps families own homes at prices they can afford. DSCLT invests funds in every transaction, “buying down” the purchase price of the homes. DSCLT homeowners gain equity and financial stability, and Delaware gains homes that are affordable for generations to come. The organization serves families in New Castle, Kent and Sussex Counties. Eligibility is limited to families earning household incomes at or below 80 percent of area median income based on family size.

*National Council for Agricultural Life and Labor Research Fund, Inc. (\$4,000)* - A multi-faceted nonprofit housing corporation that offers a variety of housing development technical assistance services to statewide nonprofit sponsors, along with educational direct services to low- and moderate-income households in need of housing improvement. The organization was also designated as a Community Development Financial Institution by the U.S. Department of Treasury.

*La Esperanza (\$2,000)* - Sussex County’s leading nonprofit provider of services for Latino clients. Based in Georgetown, Sussex County, the organization provides immigration and citizenship advice, and services relating to employment, emergency food, healthcare referrals, transportation, victim advocacy and temporary housing.

*Delaware Housing Coalition (\$3,000)* – The organization advocates for safe, decent and affordable housing throughout the state.

## **Community Development Services**

This section of the Community Development Test evaluated the institution’s record of helping to meet the community needs of the assessment area by analyzing the level of community development services. A community development service has community development as its primary purpose and is related to the provision of financial services or technical assistance. The service activities are conducted as a representative of County Bank.

Overall, County Bank's community development service activity reveals an adequate response to area community development needs. The following represents some of the community development services:

- The CRA Officer has been a member of the Board of Directors of the *Delaware Housing Coalition* for several years and is currently serving as the organization's Treasurer. This statewide citizen advocacy group works towards developing, implementing and funding a comprehensive, coordinated and strategic statewide housing plan that meets the affordable housing needs of Delaware's residents. The mission of the Delaware Housing Coalition is to advocate for safe, decent and affordable housing throughout the state.
- During the evaluation period, the CRA Officer was a member of the *Sussex County Habitat for Humanity's ReStore* (SCHFH ReStore) Committee and is involved in fund raising. The SCHFH ReStore is a resale center for building materials, home fixtures, appliances, tools, furniture, and household items. The proceeds from the ReStore go directly into the construction of more affordable homes for Sussex County families. The ReStore will accept donations of new and "gently used" surplus building materials, fixtures, furniture, appliances, tools and other items and offer them to the public at bargain prices.
- County Bank representatives have participated in the *American Bankers Association's Teach Children to Save Day* in 2006, 2007 and 2008. This national program is geared toward teaching students in grades K-12 the value of saving and the basics of money management.

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

A substantive discriminatory violation of Regulation B, the implementing regulation for the Equal Credit Opportunity Act (ECOA), was identified at the current examination in regard to a statement within the bank's lending policy that indicated that all lines of credit to closely held corporations will be supported by the personal guarantees of all principals and their spouses. These types of violations are inconsistent with helping to meet a community's credit needs and are considered in determining an institution's CRA Rating.

The bank's policies, procedures, training programs, internal assessment efforts and other practices to prevent discriminatory or other illegal credit practices was reviewed and determined to be generally effective. Additionally, management's responsiveness in addressing the violations by revising the lending policy and committing to corrective action was also considered. Based on these reviews, a determination was made that the discriminatory violations did not warrant a downward adjustment to the institution's CRA Rating.

## **METROPOLITAN AREA**

### **DESCRIPTION OF THE BANK'S OPERATIONS IN DOVER METROPOLITAN STATISTICAL AREA (MSA) 20100 (KENT COUNTY)**

The bank operates one branch office in an upper-income census tract in Kent County. The portion of the bank's assessment area within this county is comprised of 2 of the 38 census tracts within the overall assessment area. The bank's performance in Kent County is consistent with its limited presence there. Specifically, the home mortgage loans samples used to evaluate lending performance in 2007 and 2008 show the bank made only one loan in Kent County. Additionally, a review of commercial loans made inside the assessment area during the period reviewed shows that the bank made 15 commercial loans in Kent County. Several of the bank's community development activities, in particular DCIC, cover the State of Delaware.

## **NON METROPOLITAN AREA**

### **DESCRIPTION OF THE BANK'S OPERATIONS IN SUSSEX COUNTY, DELAWARE NONMETROPOLITAN AREA**

The bank operates seven offices in Sussex County. The county is comprised of 36 census tracts. The bank's lending activities in Sussex County are consistent with the overall performance in the Lending Test. Community development activities within Sussex County are also consistent with the overall performance in the Community Development Test.

**APPENDIX A**

**SCOPE OF EXAMINATION:**

|  |
|--|
| <b>County Bank</b>   |
| <b>SCOPE OF EXAMINATION:</b> The scope of the review included an evaluation of the bank's lending, investment, and service activities. |
| <b>TIME PERIOD REVIEWED:</b> September 3, 2002 to January 29, 2009   |
| <b>PRODUCTS REVIEWED:</b> Home mortgage loans, commercial loans, qualified investments, and community development 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>MSA 2190</b>   | <b>Full Scope</b> | <b>0</b> |  |
| <b>Non-Metro Sussex County</b>                          | <b>Full Scope</b> | <b>0</b> |  |
|   |                   |          |  |

## **APPENDIX B GENERAL CRA DEFINITIONS**

### **GEOGRAPHY TERMS**

**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 Statistical Area (MSA/MD):** The Metropolitan Statistical Areas have at least one urbanized area of 50,000 or more population. There are 11 instances (Boston, Chicago, Dallas, Detroit, Los Angeles, Miami, New York, Philadelphia, San Francisco, Seattle, and Washington) where a Metropolitan Statistical Area containing a single core with a population of 2.5 million or more has been subdivided to form smaller groupings of counties referred to as **Metropolitan Divisions** (One or more large population centers and adjacent communities that have a high degree of economic and social integration.) Each MD 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 MD 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, MDs are composed of cities and towns rather than whole counties.

**Combined Statistical Area (CSA):** The larger area of which MSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

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

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

### **HOUSING TERMS**

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

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

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

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

### **INCOME TERMS**

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

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

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

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

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

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

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

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

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

### **OTHER TERMS**

**Small Business Loan(s):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by non-farm or non-residential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by non-farm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.