

PUBLIC DISCLOSURE

November 26, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Discover Bank
05649**

**502 E. Market Street
Greenwood, Delaware 19550**

**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.

TABLE OF CONTENTS

I.	General Information.....	1
II.	Institution Rating	
	a. Overall Rating.....	2
	b. Performance Test Ratings Table.....	2
	c. Summary of Major Factors Supporting Rating.....	3
III.	Institution	
	a. Description of Institution.....	5
	b. Scope of Examination.....	9
	c. Conclusions with Respect to Performance Tests.....	10
III.	Appendix	
	a. Scope of Examination Tables	32
	b. Glossary	33

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Discover Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 26, 2007**. 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

INSTITUTION'S CRA RATING: This institution is rated “Outstanding”.

The following table indicates the performance level of Discover Bank with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Discover Bank		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding	X	X	X
High Satisfactory			
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

*Note – The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Discover Bank has an outstanding record of helping to meet the credit needs of its Assessment Area (AA), including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. This rating was determined using Large Bank CRA evaluation procedures. The bank's performance under the Lending, Investment, and Service Tests is summarized below.

Lending

- The institution had the largest market share of home purchase loans made inside the assessment area (both number and dollar amount) in 2005 and 2006 when compared to financial institutions with retail branches in the same assessment area.
- There is an excellent distribution of home purchase loans to borrowers of different income levels. Discover Bank was the market leader in making loans to low- and moderate-income borrowers in its assessment area in 2005 and 2006. Small business lending levels reflect a good distribution among business customers of different sizes, as approximately 90 percent of small business loans were made to businesses with gross annual revenues of \$1 million or less.
- The geographic distribution of home purchase loans is good. Discover Bank had the largest market share of home purchase loans made in the assessment area's moderate-income census tracts in 2005 and 2006. Furthermore, the level of lending compared favorably to aggregate and demographic data. The geographic distribution of small business and consumer loans is adequate.
- Innovative and flexible lending practices are used extensively to address the credit needs of low- and moderate-income home buyers.
- Discover Bank is a leader in community development lending within the assessment area, originating over \$20 million in community development loans during the evaluation period through its community development corporation. Lending activities address assessment area credit needs for affordable housing, workforce housing and also funded organizations that support community development.
- Given that only a small percentage of loans relative to Discover Bank's overall lending were originated inside the assessment area, lending levels reflect adequate responsiveness to assessment area credit needs.

Investments

- Discover Bank made an excellent level of qualified investments, demonstrating an excellent responsiveness to credit and community development needs. During the evaluation period, the bank made \$114.5 in new qualified investments and more than \$3 million in qualified grants.
- Use of innovative or complex investments was identified, for example the bank invested in several low-income housing and state historic tax credits projects. The institution also created a unique relationship with the Delaware State Housing Authority.

Services

- Retail delivery systems are easily accessible to all portions of the bank's assessment area. Services, including business hours, are tailored to meet the convenience and needs of the assessment area, low- and moderate-income individuals.
- Discover Bank is a leader in providing community development services within the assessment area.

INSTITUTION

DESCRIPTION OF INSTITUTION:

Discover Bank was founded in 1911 as a community bank in Greenwood, Delaware, under the name of Greenwood Trust Company. In 1985, Sears, Roebuck and Company purchased the bank to be the issuer of its Discover Card. In order to provide continuity with the Discover brand, Greenwood Trust Company was renamed Discover Bank, effective August 1, 2000. Discover Bank is wholly-owned by Discover Financial Services (DFS), Riverwoods, Illinois. The bank, along with its parent company, DFS, was spun-off from Morgan Stanley and became an independent company in July 2007. Since its inception in 1986, DFS has grown to be a leading credit card issuer in the United States with over 50 million cardmembers.

The community bank continues to operate in Greenwood, Delaware and this office is the focal point of the bank's CRA activities. In addition to credit card loans, Discover Bank offers a variety of products, including, home purchase, refinance, home improvement loans, home equity loans, personal loans and student loans, as well as checking accounts, certificates of deposit and money market accounts. Management considers lending for homeownership the key to meeting community credit needs of its assessment area and focuses on funding home purchase loans.

The bank continues to offer affordable lending products through its relationship with Chase Home Finance (Chase). With this relationship, Chase takes home loan applications and underwrites loans using Discover Bank guidelines. Chase closes the loans, which are subsequently purchased by Discover Bank. The bank's Community Loan Fund Program is offered through Chase. The Chase relationship was developed to increase process efficiency, exposure and impact of Discover Bank's products within the assessment area. The bank also purchase loans originated through the Delaware State Housing Authority's First Time Homebuyer Program. The program provides first mortgage financing at below-market rates to low- and moderate-income individuals and families. The bank continues to purchase loans through its Whole Loan Purchase Program; created in 2002 to facilitate the purchase of first mortgage residential loan production from other area banks.

The Discover Home Loan, launched in 2002, is a home equity loan program offered nationally. The Discover Business Card, targeted to small business owners nationwide, was launched in 2006.

Based upon September 30, 2007 Call Report, assets totaled \$31 billion. Total loans were \$20.8 billion, comprised almost entirely of consumer credit card loans which totaled \$20.5 billion. The distribution of the loan portfolio is shown in the following table:

Table 1 – Loan Distribution as of September 30, 2007		
Loan Type	Dollar Amount (000s)	Percent of Total Loans
1-4 Family Residential:	73,023	0.35
Construction & Land Development	0	0
Multifamily (5 or more)	0	0
Commercial	0	0
Total Real Estate Loans	73,023	0.35
Commercial and Industrial	194,181	0.93
Consumer	20,506,277	98.71
Lease Financing Receivables	0	0
Other Loans	1,712	0.01
Total Loans	20,775,193	100.0

Source: Consolidated Report of Condition and Income (Call Report)

Discover Bank and Morgan Stanley formed the Morgan Stanley/Discover Community Development Corporation (MSDCDC), a wholly-owned subsidiary of Morgan Stanley, in order to take a leadership role in community development projects in Delaware in 2003. Discover Bank meets the definitional requirements of a “grandfathered bank” per the Competitive Equality Banking Act (CEBA) and the Bank Holding Company Act as amended, and is therefore subject to a number of restrictions as to the types of business activities in which it can participate. For example, the bank can not originate commercial loans, including multi-family housing loans. The community development corporation allows the bank to participate in commercial real estate lending opportunities despite its charter restrictions.

Due to Discover Bank’s spin off from its parent company Morgan Stanley, since the previous performance evaluation; MSDCDC was replaced with the Discover Community Development Corporation (DCDC) in 2005. The DCDC is discussed in further detail under the Community Development Lending and Investment Test sections of this evaluation.

The institution’s CRA performance received a rating of “Outstanding” at the September 30, 2004 evaluation using large bank examination procedures. Historically, home mortgage lending activities attributed to the retail facility are the focal bank of the performance evaluation. Accordingly, the scope of the prior performance evaluations included a review of data collected and reported pursuant to Home Mortgage Disclosure (HMDA) and an analysis of community development lending, investment and service activities. The current performance evaluation will also be conducted using large bank examination procedures.

DESCRIPTION OF THE ASSESSMENT AREA

The assessment area is comprised of 32 census tracts located in Sussex (24 tracts) and Kent (8 tracts) Counties, Delaware. Based upon 2000 U. S. Census data, 2 census tracts are moderate-income (6 percent), 29 (91 percent) are middle-income and 1 (3 percent) is upper-income. There are no low-income census tracts in the assessment area. Both moderate-income tracts are located in Kent County.

The majority of the bank’s assessment area consists of rural areas in Sussex County; the portion of the assessment area located in Kent County is also predominantly rural. Major employers represent a variety of industries, including poultry processing plants, health care facilities and government. Sussex County has the highest poverty rate and the highest rate of substandard housing in Delaware. The Delaware State Housing Authority recently reported that there are 4,073 Sussex County families living in substandard housing, defined as housing needing repairs or replacements of at least two major structural systems. The area is also home to a significant Hispanic immigration/migrant population who primarily work in the area’s poultry processing plants. According to Sussex County Online, the area produces more chickens than any other county in the U.S.

Population - The assessment area population, based upon 2000 U.S. Census data, is 135,506 persons, representing 51,450 households and 37,304 families. Of total families, 20, 20, 25, and 35 percent are low-, moderate-, middle- and upper-income, respectively. The following income levels were used to determine family income levels:

Assessment Area	Table 2 – HUD-Adjusted Median Family Income			
	2000	2005	2006	2007
MSA 20100/Kent County	46,506	56,650	55,800	58,700
Non-MSA/Sussex County	45,190	54,900	54,300	55,200

Source: FFIEC Website.

Businesses and Industry - According to information available from Dun & Bradstreet for 2006, there were 8,310 non-farm establishments within the assessment area. Of these businesses, 8 percent were located in moderate-, 88 percent were located in middle-, and 4 percent in upper-income census tracts. The majority of businesses (91 percent) that reported gross annual revenue data, reported earning revenues of \$1 million or less. The area’s two largest industries, as a percentage of total industries, were services (32 percent) and retail trade (16 percent).

Housing - Of the total housing units, 67 and 23 percent are owner and non-owner occupied, respectively. The majority of housing by type at 65 percent is single-family (1-4 units), 4 percent are multi-family (5 or more units), and 30 percent are mobile homes. By owner-occupancy, 5, 93 and 2 percent are located in moderate-, middle- and upper-income census tracts, respectively.

Competition – The bank is subject to intense competition for home mortgage and commercial loans from other banks, mortgage and finance companies, savings and loan associations, and credit unions operating within the same assessment area. Aggregate 2006 data indicates that 46 financial institutions originated more than 25 home mortgage loans within the bank’s assessment area. Additionally, small business loan data available for 2006 shows that 21 financial institutions originated over 50 small business loans each in the assessment area. This data includes small business credit card loans.

Community Contacts

As part of this evaluation, information obtained from interviews conducted with individuals in the assessment area considered knowledgeable regarding the local community, its economic base, and community development initiatives were reviewed. Reviews of community contacts conducted between evaluations identified the following opportunities for financial institution participation:

- ✓ Investing in housing loan pools and/or equity funds to support the development of affordable housing. Nonprofits would benefit from direct grants.
- ✓ Assisting with developing solutions to predatory lending, and developing residential mortgage and consumer loan products to bridge the gap between prime and sub-prime borrowers.
- ✓ Providing small dollar, forgivable loans for start-up businesses.

Additionally, a representative from a county housing department indicated that increase in home prices, as a result of appreciation of property values, has resulted in housing affordability issues for area wage earners, including police and fire men/women, teachers, and nurses. To this end, the organization created a Moderately Price Housing Program, geared toward constructing moderately-priced housing units.

Discover Bank management provided information relating to assessment area credit needs based upon contacts with state and local community development, and affordable housing agencies. The primary need identified in Kent and Sussex Counties is affordable housing, followed by education and health and social services. Information derived from a nonprofit housing organization indicated that due to the lack of affordable housing, there has been sharp increase in the number of individuals at risk for homelessness. Modest paying jobs dominate rural Delaware with a large number of people employed in fast food restaurants, the service industry and poultry processing plants. The organization identified the need for workforce housing, as without adequate housing, retention of employees is challenged, including individuals working at schools and hospitals. The Delaware State Housing Authority noted in the 2003-2007 Housing Needs Assessment that the number of foreclosures throughout the state and in particular Sussex County is increasing. The need for providing Delaware homeowners with assistance in preventing residential foreclosure through education, counseling and alternate mortgage funding was also identified.

SCOPE OF EXAMINATION

Evaluation Period and Products Evaluated

The scope of the lending review included home mortgage lending activity for 2005, 2006, and the first six months of 2007. Within home mortgage lending categories, the focus is on home purchase lending, as the bank does not actively originate home refinance or improvement loans within the assessment area. Specifically, 70, 88 and 97 percent of loans made inside the assessment area in 2005, 2006 and as of June 30, 2007, respectively were home purchase loans. As such, the borrower and geographic distribution of loans reflect home purchase lending performance. Home mortgage lending received more weight in the lending rating because there were a significantly larger number and dollar volume of home mortgage loans made inside the assessment area during the review period.

Business credit cards originated since the product's launch in 2006 through June 30, 2007 were also reviewed. In addition, community development loans and investments originated and outstanding since the prior evaluation were also evaluated along with retail and community development services.

Small farm loans were not evaluated, as the number originated inside the assessment area is so small as to provide a meaningful analysis. Specifically, two and three small farm loans were originated inside the assessment area during 2006 and 2007, respectively. The institution did not collect data relating to consumer loans; however, as consumer loans (credit card loans) constitute a substantial majority of the bank's lending, information relating to consumer lending is included in the performance evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Lending Activity and Assessment Area Concentration

Discover Bank made a small percentage of loans within its assessment area during the evaluation period. This level of activity reflects the institution's strategic focus as a nationwide lender. As indicated previously, the Discover Home Loan and Discover Business Card are offered on a nationwide basis; both products are included in the following table which reflects home mortgage and small business lending activity for 2005, 2006, and as of June 30, 2007.

Table 3 - Distribution of Loans Inside and Outside of the Assessment Area

<i>Loan Category or Type</i>	<i>Number of Loans</i>					<i>Dollars in Loans (000s)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
Home Mortgage										
2005	210	28	527	72	737	23,193	51	22,543	49	45,736
2006	117	10	1,089	90	1,206	19,091	22	68,858	78	87,949
YTD 2007	76	33	155	67	231	12,685	43	17,109	57	29,794
Subtotal	403	20	1,771	80	2,174	54,969	34	108,510	66	163,479
Small Business										
2006	46	.1	50,666	99.9	50,712	424	.1	436,760	99.9	437,184
YTD 2007	55	.1	73,735	99.9	73,790	461	.1	614,516	99.9	614,977
Subtotal	101	.1	124,401	99.9	124,502	885	.1	1,051,276	99	1,052,161
Total	504	.4	126,172	96.6	126,676	55,854	5	1,159,786	95	1,215,640

Source: HMDA Disclosure Statements (2005 and 2006) HMDA Data Collection (2007), Bank Records

Home Mortgage Lending

In accordance with Home Mortgage Disclosure reporting requirements, a substantial majority (99%) of Discover Home Loans are included in the home mortgage loans in Table 3, as they were for home improvement purposes. Table 3a represents loans originated through the retail home purchase program; Table 3b represents loans originated through the nationwide Discover Home Loan Program. Overall, the low percentage of home mortgage loans originated inside the assessment area by both number (20 percent) and dollar amount (34 percent) is a function of the Discover Home Loan product, which is marketed nationwide to Discover Bank and its affiliate's customers.

Table 3a - Distribution of Retail Loans Inside and Outside of the Assessment Area

Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2005	208	96	9	4	217	23,118	95	1,219	5	24,337
2006	114	50	114	50	228	18,893	48	20,502	52	39,395
YTD 2007	75	51	71	49	146	12,635	49	13,057	51	25,692
Total	397	67	194	33	591	54,646	61	34,778	39	89,424

Source: HMDA Disclosure Statements (2005 and 2006) HMDA Data Collection (2007), Bank Records

Table 3b - Distribution of Discover Home Loan Program Inside and Outside of the Assessment Area

Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
DHL/Home Improvement										
2005	2	0	518	100	520	75	0	21,324	100	21,399
2006	3	0	975	100	978	198	0	48,356	100	48,554
YTD 2007	1	1	84	99	85	50	1	4,052	99	4,102
Total	6	0	1,577	100	1,583	323	0	73,732	100	74,055

Source: HMDA Disclosure Statements (2005 and 2006) HMDA Data Collection (2007), Bank Records

As indicated previously, management considers funding loans to purchase homes the key to meeting assessment area credit needs. This strategy appears to be consistent with comments received from community contacts. Based upon aggregate home mortgage lending data for 2005, Discover Bank ranked seventh by the number of home purchase originated inside the assessment area. Market leaders were large mortgage companies, such as Countrywide Home Loans and Wells Fargo Bank, NA. Delaware National Bank and Wilmington Trust Company had market ranks by number of fourteenth and fifteenth, respectively. Based upon aggregate home mortgage lending data available for 2006, Discover Bank ranked fourteenth by number of home purchase loans originated within its assessment area. Similar to 2005, the market leaders were large mortgage companies. Local lenders, Delaware National Bank, Wilmington Savings Fund Society, and Wilmington Trust Company had market ranks by number of seventeenth, eighteenth, and twentieth, respectively.

As shown in Table 3(a), despite an increase in total mortgage dollars allocated through the residential mortgage loan programs between 2005 and 2006 (from \$24.3 to \$39.4 million), the percentage of the number and dollar volume of loans made inside the assessment area decreased. While 96 and 95 percent of loans by number and dollar volume, respectively were made inside the assessment area in 2005, approximately 50 percent by number and dollar volume were made inside the assessment area in 2006 and YTD 2007. This is attributed to the purchase of loans through a relationship with the Delaware State Housing Authority. The agreement allows for the bank to purchase loans made throughout Sussex and Kent Counties, and not limited to bank's assessment area. This also explains the decline in the bank's market rank by number of home purchase loans made inside the assessment from seventh in 2005 to fourteenth in 2006. Nonetheless, the institution continued to have the largest market share by number and dollar amount of home purchase loans made inside the assessment area when compared to local, retail lenders.

Small Business Lending

The Discover Business Card was launched on June 12, 2006. While the program was developed and marketed nationally, the retail bank has taken an active role in promoting the business card within the assessment area. As shown in Table 3, since inception through June 30, 2007, the institution originated 101 small business loans totaling \$885,000 inside the assessment area. Aggregate CRA small business lending data available for 2006 shows that Discover Bank's six months of lending resulted in the institution ranking seventeenth by number of small business loans made inside the assessment area. For comparison, PNC Bank Delaware, NA ranked seventh and Citizens Bank ranked twelfth.

Credit Card Lending

While the institution's CRA performance focuses on its retail activities in Southern Delaware, since the credit card portfolio is a substantial majority of the bank's loan portfolio, the following is presented. The bank originated 3,281,329 credit card accounts in 2005, 2006 and as of June 30, 2007. Management determined that 1,952 representing 0.1 percent of the portfolio were originated inside the assessment area. This performance is considered adequate, given that the bank is originating credit cards nationally.

Borrower Characteristics

Overall, the borrower distribution of home mortgage loans reflects excellent penetration among individuals of different income levels. The distribution of small business loans reflects good penetration among businesses of different sizes. Credit card lending within the assessment area reflects adequate penetration among borrowers of different income levels. The following analysis reflects loans made within the assessment area.

Home Mortgage Lending

The level of home purchase lending to low- and in particular, moderate-income borrowers is excellent. The bank's performance well exceeded aggregate performance in 2006 with respect to

home purchase lending to low- and moderate-income borrowers. While both the bank and aggregate performance was below demographic data relative to lending to low-income borrowers; Discover Bank's level of lending to moderate-income borrowers well exceeds demographic data. The following table details the distribution of home purchase loans by borrower income.

Table 4 - Distribution of Home Purchase Loans by Borrower Income				
Borrower Income Level	% of Total Families	Aggregate Lending Data	2006	
		(% of #)	#	%
		2006		
Low	20	2	9	9
Moderate	20	12	35	34
Middle	25	21	52	50
Upper	35	46	7	7
\$0/NA Income	0	17	0	0
Total	100	100	103	100

Source: U.S. Census, HMDA Disclosure Statements (2006) and HMDA Aggregate Data

Discover Bank was the leader in making home purchase loans to low-income borrowers within the assessment area at the retail level during 2006. The bank had market ranks fourth, by number of home purchase loans made to low-income borrowers in 2006. The bank ranks sixth in the number of home purchase loans made to moderate-income borrowers in 2006. This level of lending is greater than any other financial institution with a retail presence in the assessment area. The number of home purchase loans to low- and moderate-income borrowers and the market rank were similar in 2005. It is also noted that over half the home purchase loans made as of June 30, 2007 were to moderate-income borrowers.

Small Business Lending

Small business lending reflects a good distribution of loans among businesses of different sizes. For 2006 and YTD 2007, a majority of loans were originated to businesses the reported gross annual revenues of \$1 million or less. The distribution of loans by gross annual revenue of the business essentially mirrors demographic data which shows that of 91 percent of businesses that reported gross annual revenues reported earning \$1 million or less.

Table 5 - Distribution of Small Business Loans by Gross Annual Revenues of Business				
Gross Annual Revenues (000s)	% of Assessment Area Businesses	Aggregate 2006	2006	
		%	#	%
≤ \$1,000	91	39	42	91
> \$1,000 or NA	9	61	4	9
Total*	100	100	46	100

Source: CRA data collection (2006)

Credit Card Lending

Overall, the distribution of credit card loans by borrower income reflects adequate penetration among borrowers of different income levels. Of the 1,952 loans originated inside the assessment area during the evaluation period, 16, 23, 23, and 34 percent were originated to low-, moderate-, middle- and upper-income borrowers, respectively. An additional 5 percent were originated to borrowers for which income was not considered in the credit decision. Comparatively, based upon 2000 census data, 24, 17, 21 and 38 percent of assessment area households qualify as low-, moderate-, middle- and upper-income, respectively.

Geographic Distribution

Overall, the geographic distribution of home mortgage and small business loans reflects good penetration throughout the assessment area. Only loans made inside the assessment area are included in the analysis.

Home Mortgage Lending

Discover Bank's geographic distribution of home mortgage loans is good and commensurate with assessment area demographics. Overall, the bank's performance compared favorably to aggregate lenders making home purchase loans in moderate-income census tracts. The bank's lending levels in moderate-income census tracts was also comparable to the percentage of owner-occupied housing units located within the assessment area. Table 6 illustrates the geographic distribution of the bank's 2006 home mortgage loans. For comparative purposes, the table also includes aggregate lending data and the assessment area's geographic breakdown of owner-occupied housing units.

Table 6 – Distribution of Home Purchase Loans by Income Category of the Census Tract				
Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2006	
		2006	#	%
Low	0	0	0	0
Moderate	5	4	11	11
Middle	93	94	92	89
Upper	2	2	0	0
\$0/NA Income	0	0	0	0
Total*	100	100	103	100

Source: U.S. Census, HMDA Disclosure Statements (2006) and HMDA Aggregate Data.

Discover Bank made 11 (9 percent) home mortgage loans in moderate-income census tracts in 2006. The bank's performance compared favorably to aggregate data and to the percentage of owner-occupied housing units located in moderate-income census tracts. Within this competitive market, the bank ranked 5th in 2006, relative to lenders reporting home purchase loans in the assessment area's moderate-income census tracts; competitor, Wilmington Trust Company had a market rank of 8th. A review of 2005 and YTD 2007 home mortgage lending data reflects similar results.

Small Business Lending

Lending throughout the assessment area is consistent with both demographic and aggregate lending data. The distribution of small business loans by census tract income level is shown in the following table. A review of YTD 2007 data reflects similar results.

Table 7 - Distribution of Small Business Loans by Income Category of the Census Tract				
Census Tract Income Level	% of Assessment Area Businesses	% of # Aggregate Lending	2006	
		2006	#	%
Low	0	0	0	0
Moderate	8	6	5	11
Middle	88	91	41	89
Upper	4	3	0	0
\$0/NA Income	0	0	0	0
Total*	100	100	46	100

Source: CRA Disclosure Statements (2006) and CRA Aggregate Data

Credit Card Lending

Consistent with assessment area demographics, the majority of credit card loans originated during the evaluations period, were in middle-income census tracts.

Community Development Lending

Performance Criteria

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

Discover Bank is a leader in originating community development loans within its assessment area. As indicated previously, Discover Bank is now a separate entity; community development activities once conducted by MSDCDC were replaced with by DCDC in 2005. DCDC has provided funding for 15 projects totaling \$21 million since its creation in 2005. Due to the bank's limited capacity to process and service the loans, DCDC sought out other banks focused on meeting the needs of the community and a U.S. Treasury Certified Community Development Financial Institution (CDFI) for which to facilitate making DCDC loans. During the evaluation

period, eight loans totaling \$17.1 million were originated through the CDFI. Additionally, still outstanding is \$3 million in remaining principal balance of loans considered during the prior CRA performance evaluation. CRA Performance Evaluations of two nationwide credit card lenders were reviewed with respect to the dollar volume of community development loans; both financial institutions make community development loans in Delaware. Discover Bank’s level of community development loans at \$21 million inside its assessment area compared favorably to these institutions. Specifically, the institutions have community development loans of \$15.1 million and \$8.7 million in Delaware, based upon the performance evaluations.

The bank’s community development lending supported the creation of affordable housing, the needs of organizations that provide community development services and revitalization efforts throughout the assessment area. Additionally, as the institution met the needs of its assessment area, community development loans originated outside the assessment area, but in a broader regional area that includes the bank’s assessment area are also presented and considered in the bank’s community development lending performance. Table 8 shows the distribution of the bank’s community development lending.

Table 8 - Qualified Community Development Lending Activity		
Loan Description	Number of Loans	Dollar Volume (000s)
Affordable Housing (excluding multi-family rental housing) for Low-and Moderate-Income Individuals	1	7,875
Multi-Family Affordable Housing for Low-and Moderate-Income Individuals	1	1,810
Community services targeted to low or moderate-income individuals	8	3,281
Activities that Revitalize or Stabilize Low- and Moderate-Income Geographies, Including Job Retention	5	7,686
Total	15	20,652

Source: Bank Records

The following are examples of the bank’s community development lending activities.

Affordable Housing Rehabilitation and Construction

- A \$7.9 million loan used to fund land acquisition and development costs of 144 acres in Milton, Delaware. Preliminary approval has been granted for 287 residential housing units for which sale prices will be under \$200,000. The home prices are affordable to moderate-income borrowers using the state’s mortgage loan programs. Additionally, the developer is eligible to participate in Sussex County’s Moderately Priced Housing Unit Program. This represents DCDC’s purchase of 100 percent participation from the CDFI. These efforts will directly address the need for affordable workforce housing.

Multi-Family Affordable Housing

- A \$1.8 million loan to support a housing rehabilitation project in a moderate-income census tract in Kent County. The project calls for renovating 80 apartment units for families earning less than 50 percent of the area's median family income.

Not for Profit Organizations Serving Low- and Moderate-Income Housing or Other Community Development Needs

- The institution provides a \$500,000 unsecured line of credit to fund the operating expenses of a non-profit organization focused on providing affordable housing opportunities to low- and moderate-income individuals in Milford, Sussex County, Delaware.
- The bank provided \$1.1 million commercial mortgage loan to a non-profit legal aid society that assists low- and moderate-income individuals and families with legal services throughout Delaware.

Activities that Revitalize/Stabilize Low- and Moderate-Income Communities/Support Permanent Job Creation/Retention Economic Development

- Construction financing totaling \$506,300 used to restore a historic site located in a moderate-income census tract in the downtown area of Milford, Delaware. While another financial institution provided initial financing, due to cost overruns, restructuring was required. State of Delaware and Federal Historic tax credits were obtained to complete the project. The property is being significantly renovated into multi-family apartments and offices, which will be rented to moderate-income individuals and small business owners.
- A \$2,500,000 loan used to fund the purchase and renovation of a vacant bowling alley in Seaford, Sussex County, Delaware into the corporate headquarters of one of the regional area's largest freight shipping companies. The new facility allowed for business expansion and the resultant increase in employment for low- and moderate-income individuals. This loan represents a 100 percent participation purchased from the CDFI.
- A \$4 million land acquisition and development loan used to rehabilitate the area surrounding the recently rehabilitated Georgetown train station. This loan represents DCDC's 100 percent participation purchased from the CDFI.

Use of Innovative or Flexible Lending Practices

Performance Criteria

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

The bank makes extensive uses innovative or flexible lending practices to address the credit needs of low- or moderate-income individuals. The following are examples.

- Delaware State Housing Authority (DSHA) – A unique/innovative relationship with DSHA was developed at the end of 2005. The bank has an agreement with DSHA to purchase all single-family mortgage revenue bond loans originated in Kent and Sussex Counties. This statewide program provides first mortgage financing at below-market rates to low- and moderate-income Delaware homebuyers who have not been homeowners within the last three years. Since the program launched, 96 loans totaling \$17.3 million were made inside the assessment area.
- Community Loan Fund Program (CLF) – Program offering flexible underwriting guidelines and favorable pricing to assessment area low- and moderate-income borrowers. Pricing is 1 percent below market for 15- and 30-year fixed rate mortgages. Up to 95 percent loan-to-value with no private mortgage insurance; up to 105 percent combined loan-to-value when coupled with a DSHA second mortgage loan. Underwriting process allows for consideration of non-traditional credit, free homebuyers workshop and counseling; 95 loans for \$12.9 million were made inside the assessment area during the evaluation period.
- USDA Rural Development Programs – *USDA Rural Development Leveraged Loan Program* combines a private lender's mortgage with a subsidized mortgage from Rural Housing Service for a combined LTV of 102 percent. The product is available to low- and moderate-income borrowers in rural areas of Delaware. *USDA Guarantee Program* eliminates the need for private mortgage insurance for qualified first time homebuyers. A total of 6 loans for \$253,000 were made through the program.
- Community 100 Loan Program – Loans originated with 100 percent LTV and a fixed 1 percent below-market rate to borrowers with incomes of not greater than 100 percent of the area's median family income. Seventeen loans totaling \$2.6 million were made through this program.
- Mobile/Manufactured Homes – The bank applies the same underwriting standards and pricing as it does for the CLF, Mortgage Loan Program, and if permissible the USDA programs to applications for mobile and manufactured housing loans. Of the 397 loans originated inside the assessment area during the evaluation period, 83 (21 percent)

totaling \$10.5 million were secured by manufactured housing. DCDC created an agreement with a local lender to provide residential construction financing for potential manufactured housing homeowners within the bank's assessment area.

- DCDC agreed to enhance the bank's mortgage lending partners permanent mortgage commitments with a guaranteed takeout for construction loans provided by a local lender. In return, the lender provides flexible underwriting and 95 percent loan-to-value financing without private mortgage insurance for a \$20 million revolving portfolio of permanent mortgage customers. This program has been beneficial to low- and moderate-income borrowers who need interim financing for the placement of manufactured housing on unimproved lots. During the evaluation period, 24 loans totaling \$3.3 million were funded.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

The bank's level of qualified community development investments and donations reflects an excellent responsiveness to the credit and community economic development needs based on the opportunities for such investments. The bank made \$117.9 million in qualified investments and donations since the previous CRA Evaluation dated September 30, 2004, including \$114.5 million in investments and \$3.3 million in grants and donations. Including \$243 million in New Market Tax Credits made by its affiliate Morgan Stanley, investment and grant activity totaled \$361.2 million. In total, Discover Bank increased its total new investment and grant activity by 203 percent when compared to the previous performance evaluation.

Based upon the September 30, 2007 Call Report, CRA qualified investments represent 0.5 percent of total assets and 3.9 percent of total capital. Including Morgan Stanley affiliate credit, total CRA qualified investments represent 0.6 percent of total assets and 5.3 percent of total

capital. Discover Bank and MSDCDC's investment and grant activity between evaluations is detailed in the following table:

Table 9 - Qualified Investments		
DESCRIPTION	NUMBER	DOLLARS (000s)
Mortgage Backed Securities	12	\$78,376
Low-Income Housing Tax Credits	3	\$25,000
Affordable Housing	1	\$986
Economic Redevelopment	1	\$167
Other Equity (Charter Mac)	1	\$10,000
<i>Total Debt or Equity Investments</i>	<i>18</i>	<i>\$114,529</i>
Not-for-Profit Organizations serving LMI housing or other community development needs	38	1,391
Organizations supporting activities essential to the capacity of LMI individuals and geographies to utilize credit or to sustain economic development	129	1,921
In-Kind Contributions of Property	0	0
Other Qualified grants and Donations	0	0
<i>Total Qualified Grants and Donations</i>	<i>167</i>	<i>\$3,312</i>
Subtotal Discover Bank	185	\$117,841
<i>Morgan Stanley Affiliate Credit</i>	<i>23</i>	<i>\$243,261</i>
Grand Total	208	\$361,102

Source: Bank Records

New Investments

Mortgage Backed Securities

- Delaware State Housing Authority (DSHA) - As part of a unique lending program developed by the bank for the DSHA, the bank purchased five single family mortgage revenue bonds totaling \$60 million between performance evaluations. Proceeds from the sale of the bonds are used by the housing authority to purchase mortgage backed securities, which, in turn generate additional capital that can be used to improve the affordability of residential housing in Delaware for low- and moderate-income

individuals and families. The bank provides funding for both the purchase and securitization of the loans, as well as for the long term financing of the bonds. Capital for the purchase of the loans is used strictly for the initial funding of low interest rate mortgages in Kent and Sussex Counties, capital for the bonds is utilized for the long-term permanent financing structured needed to support the 30- and 40-year mortgage loans.

- Fannie Mae and Freddie Mac Mortgage Backed Securities – During the evaluation period, the bank purchased seven mortgage backed securities totaling \$18 million. The securities are collateralized by 126 mortgages to low- or moderate-income individuals. Mortgage backed securities remains an important segment of the bank’s CRA investment portfolio and an important funding mechanism for financing various low- and moderate-income housing programs. This investment focused on the bank’s regional area as the DSHA loan program covers Delaware and the bank’s assessment area. Nonetheless, nine mortgages totaling \$1.5 million are located in Delaware.

Low-Income Housing Tax Credits

- Muni Mae Financial - \$10 million equity investment for the purchase of low-income housing tax credits that will be used to construct a new senior housing complex within the assessment area.
- Richmond Group and Boston Capital Corporation - The bank committed \$15 million for the purchase of low-income housing tax credits. The funding was part of a \$323 million equity fund utilized to construct or rehabilitate 50 properties located across the U.S. Included in the fund are five properties located within the bank’s regional footprint.

Economic Redevelopment

- Simpson Tharp – This investment was used to fund the purchase of \$167,716 in DSHTC which supported community development efforts in the City of Milford, a moderate-income area. A segment of the revitalization efforts included a decision relating to the Governor Tharp Building, a historic building which anchors the main street. The historic tax credit program assists in preserving and rehabilitating historic buildings throughout Delaware by offering tax credit incentives.

Affordable Housing

- Wilmington Senior Center – This nonprofit senior services organization undertook a project to rehabilitate two historic structures located in Wilmington, New Castle County, Delaware and convert them into 18 units of low-income senior housing. The project included multiple layers of financing including grants, loans and historic tax credits. The bank has a binding commitment to purchase \$985,687 in DSHTCs once the tax credits are allocated.

Grants

As indicated previously, the bank made \$3.3 million in grants during the evaluation period. Grants are given to support housing and homeownership, including monies used for land acquisition, subsidy for housing units, housing counseling, emergency home repair and projects that work toward improving the housing conditions and opportunities for low- and moderate-income individuals. Grants also support financial literacy education, job training initiatives and social/human services. Bank records show that 167 grants were provided to 83 organizations during the period reviewed. The following is a brief description of some of the more significant grants.

- National Council on Agricultural Life and Labor Research Fund, Inc. (NCALL) – The bank donated \$177,000 to support the organization’s comprehensive housing services. With the bank’s support, NCALL increased the leveraged financing it was able to obtain for new homeowners by 58 percent between the previous evaluation period. NCALL is a multi-faceted nonprofit housing corporation based in Dover, Delaware that offers a variety of housing development technical assistance services to local nonprofit sponsors, along with educational direct services to low- and moderate-income households in need of housing improvement.
- Milford Housing Development Corporation (MHDC) – During the evaluation, the bank supported the organization’s mission with \$175,000 in grants. Funding supports the construction of 86 new units of affordable housing and directly impact homebuyers by keeping housing prices low.
- Nehemiah Gateway Community Development Corporation – The bank supported the organization with \$140,000 in grant monies. The funds have enabled the community development corporation to educate tax payers about the Earned Income Tax Credit Program. The program reaches over 10,000 individuals per year in Sussex County through stationary sites and a mobile bus.
- Delaware Technical and Community College – Bank grants supported the establishment of an endowment fund used to provide college textbooks to low- and moderate-income students at the college. The bank grants \$20,000 annually to fund the endowment.
- La Esperanza/Small Business Development Center – Grants funded the creation of a bilingual position at the Small Business Development Center. The individual is responsible for working with Spanish-speaking entrepreneurs to develop and expand small businesses. Funding given to La Esperanza support legal assistance provided to Spanish-speaking clients relative to business needs.
- United Methodist Church – Discover Bank formed a partnership with church members to assist the City of Seaford and individuals and families affected by a flood in June 2006. The United Methodist Church has a history of leading disaster relief efforts in the area.

The \$60,000 grant provided by the bank repaired and replaced furnaces, roofs, insulation and other necessities to families who had no other source of relief. The bank was presented a proclamation from the Mayor and Council of the City of Seaford for its efforts.

- First State Community Loan Fund – The organization is a nonprofit community development financial institution (CDFI) that specializes in supporting small businesses, micro-enterprises and affordable housing throughout the state. The bank provided \$60,000 to fund the organization’s operating expenses. Additionally, the bank’s annual \$50,000 contribution supports the organization’s Delawareans Save! Program. The organization receives matching funds from the federal government for administering an Individual Development Account program.
- Delaware Financial Literacy Institute – Grants totaling \$115,000 used to support financial literacy education programs. The programs strive to assist individuals become self-sufficient; in 2006 the organization provided 500 free Money School programs throughout the state.
- Habitat for Humanity – The bank provided \$64,000, including \$44,000 to support general operating expenses, including allowing the organization to hire additional employees; and \$20,000 used to construct a home in Concord Village, a 19-home subdivision in Sussex County.
- Sussex Community Crisis Housing Services, Inc. – The organization’s mission is to provide safe and secure temporary housing to the homeless throughout Sussex County. The agency works to facilitate the transition from homelessness to financial and housing independence. The bank made a \$20,000 grant to support the Housing and Employment Counselor position at the agency.

Morgan Stanley Affiliate Credit

In addition to new investment and grant activity and prior period investments, Morgan Stanley was an active investor in CRA eligible investments within the broader regional area which includes the bank’s assessment area. During the evaluation period, Morgan Stanley entered into the New Market Tax Credit arena. In 2006, the company invested \$243 million in 23 unique projects across the U.S., included in this total are 3 projects totaling \$49 million within the bank’s regional footprint. The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDE). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities.

Prior Period Investments

The institution continues to manage over \$23.5 million in investments made prior to the current evaluation. The investments represents the outstanding balances of mortgage backed securities, low-income housing tax credits, and funds that support the creation of affordable housing.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

Retail Banking Services

Accessibility of Delivery Systems

The bank's delivery systems are reasonably accessible to all portions of the bank's assessment area. Discover Bank operates one office in a middle-income census tract in Sussex County, Delaware. The office is equipped with two drive-through lanes and an automated teller machine (ATM). The ATM prompts individuals wishing to conduct transactions in Spanish. The bank's services do not vary in a way that inconveniences portions of the assessment area.

Alternate Delivery Systems

Discover Bank extends an array of deposit and credit products to its assessment area via the following alternative delivery systems. The alternate delivery systems offered by the bank enable all customers, including low- and moderate-income individuals, several effective methods to access account information and to obtain information on bank services.

Online Banking Services: The bank launched an online banking center in 2006 to service retail banking customers. The service allows for viewing accounts, checking balances, reviewing daily activity, making payments and transferring funds.

Bank-by-Phone: This system may be accessed 24 hours a day. Individuals may obtain deposit and loan account information, interest rates, office hours; calculate installment loan payments and get tax interest information, among other things.

Changes in Branch Locations

The bank did not open, close or relocate any branch offices since the prior performance evaluation.

Reasonableness of Business Hours and Services

Retail banking services, including business hours, do not vary in a way that inconveniences certain portions of the assessment area, particularly moderate-income geographies and/or low- and moderate-income individuals. The bank lobby and drive-up facilities are opened for business Monday through Friday 9:00 a.m. to 6:00 p.m. and Saturday 8:30 a.m. to 1:00 p.m. Branch hours are considered convenient and comparable to other local financial institutions. A debit card product was launched in 2007.

The bank offers a no-minimum balance/no-fee checking account that is opened with a \$50 deposit. Two full-time Spanish-speaking employees are on staff to assist Spanish-speaking customers when needed.

Community Development Services

Discover Bank is a leader in providing community development services within the assessment area. Bank employees are involved with more than 50 organizations that promote community development and economic revitalization in moderate-income areas or to low- and moderate-income individuals. Several of the bank's community development services directly respond to assessment area credit and social service needs. The bank played a leadership role in providing financial education to the low- and moderate-income youth and Hispanic population, has been actively involved in improving overcrowded living conditions, and has worked toward improving the quality of life in two low-income neighborhoods: Ellendale and Coverdale Crossroads. The bank's full-time CRA Director, assisted by the CRA Administrator, oversees a department dedicated to assuring that the bank's community development efforts have the maximum impact in the area. Towards this end the CRA Director meets with community leaders and organizations on an on-going basis.

The following details the community development services where Discover Bank took a lead or sole position in developing and or administering the service. All of the services meet the definition of "community development" and also relate to the provision of financial services as required by the regulation for consideration under the CRA.

Delmarva Clergy United for Social Action (DCUSA) – A nonprofit group located in Ellendale, Sussex County that provides a variety of social serves to the area's low-income residents. Ellendale is a rural area replete with substandard living conditions and high rates of poverty. The organization is currently working to creating 14 units of multifamily residential housing

units in this very low-income community. Discover Bank serves on the Planning Committee. With the bank's assistance the organization was approved for a \$500,000 grant through the Federal Home Loan Bank's Affordable Housing Program. Discover Bank representatives provided on-site accounting training for 16 DCUSA staff members. Bank employees also assisted DCUSA with updating their budget and developing a grant-writing plan for 2008

Milford Housing and Development Corporation (MHDC) – A private, non-profit corporation that was organized in 1977 to provide decent, safe, and sanitary housing for very low to moderate income households in Kent and Sussex Counties, Delaware. The organization has grown to be one of the largest and most diverse affordable housing developers within the assessment area. The bank has working closely with the organization to increase housing capacity and to diversify its programs. Discover Bank formed a partnership with MHCD to rehabilitate a single-family property for resale to a moderate-income family. The bank also frequently assists the organization with funding needs, including assistance with grant applications and tax credit issues.

Businesses Building Communities - A working group of individuals from area businesses and nonprofits that meet to develop solutions to address affordable housing shortages for the area's workforce. The group consists of representatives from local school districts, major employers and local government officials. Strategies include educating employees relative to existing and planned affordable housing, preparing employees for homeownership through offering educational opportunities, and creating affordable housing stock. The first annual Housing Symposium for employees and the public to learn about State, Federal and nonprofit programs designed for first-time homebuyers was held in 2007. Bank representatives provide technical assistance to the group.

Habitat for Humanity – The mission of the Sussex County, Delaware affiliate is to build simple, decent and affordable houses in partnership with low-income families in Sussex County. Bank representative serve on the organization's Board of Directors, Fundraising, Family Selection, and Building Committees. The organization is currently working toward opening a business which will sell donated building supplies. Bank management is represented on the ReStore Committee and provided technical assistance with respect to helping to write a business plan, generating a budget and presenting the plan to the Board. Discover Bank representatives also met with local offices relative to the planning and zoning process. The business is scheduled to open in the Spring of 2008. Additionally, a bank representative serves on the organization's Fund Raising Committee and provides technical assistance relative to family selection.

Sussex Child Health Promotion Coalition (SCHPC) – SCHPC is Nemours health and prevention services initiative developed to mobilize residents of Sussex County to improve child health, particularly children from low- and moderate-income families. Discover Bank representatives were early member of the coalition and helped to generate awareness and attract new members and resources. The coalition enables nonprofits and businesses to share information and resources. The bank has a key leadership role on the Executive Board and is working toward creating a Resource Development Committee. The committee will enable the coalition to be self-sustainable. This is the only coalition of its type in Sussex County, currently 100 members.

Stepping Stones Credit Union – Bank personnel are working with the Delaware Community Reinvestment Action Council to establish a credit union for low- and moderate-income individuals in Delaware. The credit union will also offer a small dollar loan program as an alternative to payday lenders.

State Banking Commissioner’s Foreclosure Marketing Committee - Committee designed to educate the public about foreclosure prevention, and acquiring a good mortgage through workshops throughout Delaware. Bank representatives serve on the marketing committee which assists in determining sites, writes and distributes press releases and registers individuals at events. Thus far, the bank has helped coordinate five sites within the assessment area, including one in each of the moderate-income census tracts.

Foundations – Low- and Moderate-Income Scholarship Program – The program was developed and is administered by the bank to provide high school seniors from low- and moderate-income communities with opportunities for higher education. The goal of the scholarship is to reward students who have overcome financial, communal, or other barriers and excelled at school. During the current evaluation period, 33 students have received \$180,000 in scholarships; since inception, 109 students received \$560,000 in scholarships. Management indicated that college education would not have been possible without the Foundations program for most of the students and many are first generation college students.

Refer to Table 8 for additional examples of the types of services provided by the bank relative to providing technical assistance, sponsoring events or bank products/services since the prior CRA evaluation.

Table 8– Community Development Services			
Brief Service Description	Bank Sponsored Event, Program or Seminar	Technical Assistance or Director Involvement by Bank Employee	Bank Product or Service
Bank at School Program: Bank employees teach economics and financial management and operate a student bank at several elementary and middle-schools with significant low- and moderate-income populations	X		X
Delaware Bankers Association: A member of the bank is represented on the organization’s Board of Directors and Community Relations Committee. The Delaware Bankers Association provides numerous financial literacy programs targeted to low- and moderate-income individuals, for example, Teach Children to Save Day, and Keys to Financial Success.	X	X	

<p>Delaware Community Legal Aid Society: A representative is on the Board of Directors. The organization is currently working to develop a program to assist victims of contractor fraud to include financing for repairs and legal representation for collection.</p>		X	
<p>First State Manufacturing, Inc.: Bank representative assisted this minority-owned company which was forced to relocate when the building lease was not renewed. The majority of the company’s employees are low- and moderate-income and the potential job loss if the company was forced to move out of Sussex County. The bank contacted Milford Housing to retrofit the newly leased building. The bank also provided technical assistance to determine financing options for working capital and equipment loans to help expand the business. The company eventually obtained financing with an SBA guarantee.</p>	X	X	
<p>Finanzas Literacy Program: The bank partnered with La Esperanza Community Center and local Hispanic churches to offer bilingual financial literacy classes geared toward saving and homeownership. Classes are held on-site at assessment area poultry plants.</p>	X	X	X
<p>Greenwood CHEER Center: Bank representative serves on the Construction Committee, as the organization is relocating its senior center. The bank facilitated a meeting between CHEER representatives and the USDA to discuss various loan programs. The low interest rate loan will allow the center to financing the building with low monthly payments which allows for greater cash flow.</p>			
<p>Interfaith Housing, Delaware: Discover Bank representatives have been working with the organization in their attempt to find reduced interest rate financing for 30 units of affordable housing to be constructed in Milford, Delaware.</p>			
<p>Junior Achievement: Bank representative teach financial literacy classes at Woodbridge Elementary School. Junior Achievement is working toward expanding the services they offer to Sussex County youth; Discover Bank offered to host meetings and serves on the Planning Committee.</p>	X		

<p>La Esperanza: Discover Bank representatives have been working with the organization to review funding sources and generate ideas for additional revenue. In an effort to sustain the organization's Domestic Violence Program, Discover Bank personnel researched grants and subsequently drafted a grant proposal seeking funding from a private foundation.</p>			
<p>Small Business Development Center: The organization is working toward establishing a entrepreneurial center in Sussex County and has approached the bank for assistance in developing the project. The center would serve as a one-stop-shop for individuals and be geared toward those with limited English language skills.</p>			

Source: Bank records

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with antidiscrimination laws, including the Fair Housing Act, the Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act was evaluated. There was no evidence of discriminatory lending practices on a prohibited basis.

APPENDIX A

SCOPE OF EXAMINATION:

Discover Bank
SCOPE OF EXAMINATION: The scope of the review included an evaluation of the bank's lending, investment and service activities.
TIME PERIOD REVIEWED: September 30, 2004 to November 26, 2007
PRODUCTS REVIEWED: Loan reported pursuant to Home Mortgage Disclosure and the CRA Data Collection and Reporting Requirements, credit card originations and community development loans.

LIST OF AFFILIATES AND PRODUCTS REVIEWED		
AFFILIATE(S):	AFFILIATE RELATIONSHIP:	PRODUCTS REVIEWED:
Morgan Stanley (Morgan Stanley/Discover Community Development Corporation)	Parent	Community Development Investments

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA:	TYPE OF EXAMINATION:	BRANCHES VISITED:	OTHER INFORMATION:
Sussex County	Full Scope	0	
Kent County	Full Scope	NA	

APPENDIX B - GLOSSARY

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural

classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

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

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

HOUSING TERMS

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

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

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

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

INCOME TERMS

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

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

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

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

Low-Income: Individual income that is less than 50 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

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.