

PUBLIC DISCLOSURE

December 1, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Felton Bank
12700**

**120 West Main Street
Felton, Delaware 19943**

Federal Deposit Insurance Corporation

**20 Exchange Place
New York, NY 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 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 **The Felton Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **December 1, 2008**. 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 2 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The rating was assigned based upon the following factors:

- The average net loan-to-deposit ratio reflects an excellent responsiveness to assessment area credit needs.
- A substantial majority of loans, by both number and dollar volume, were originated inside the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The overall distribution of loans by borrower profile, given the demographics of the assessment area, is reasonable among individuals of different income levels and businesses of different sizes. Although the bank's record of originating loans to low-income borrowers appeared less than satisfactory, mitigating circumstances exist. Lending activities regarding moderate-income borrowers is considered excellent.
- During the evaluation period, the bank received no fair lending or CRA-related complaints.

SCOPE OF EXAMINATION

The institution's performance was assessed using Small Bank CRA evaluation procedures. This evaluation considered the bank's lending-related activities in an effort to determine whether or not it is meeting the standards for satisfactory performance within its designated assessment area. The conclusions in this CRA Performance Evaluation are based upon a review of all residential mortgage loan originations, using Home Mortgage Disclosure Act (HMDA) reporting data, and all small business loans originations, using bank records. The evaluation period covered the time since the previous CRA evaluation, dated June 18, 2003, through the current examination date of December 1, 2008. However, the evaluation concentrated on the more recent activities conducted during 2006, 2007, and the first nine months of 2008. Since the bank is not a CRA small business loan (i.e. those with original balances of \$1.0 million or less) reporter due to its asset size, random statistical sampling of commercial loans was conducted to evaluate the bank's record of originating small business loans to businesses with gross annual revenues of \$1.0 million or less. Consumer and agricultural loans were not considered as they did not constitute a significant portion of the bank's lending activity.

DESCRIPTION OF INSTITUTION

The Felton Bank (TFB) has been in operation since 1908; originally a national bank, it converted to a state-charter in 1917. The institution's main office is located in Felton, Delaware and its two other full service branches are also located in Kent County. One branch is located in Milford, approximately 13 miles southeast of the main office in a moderate-income census tract. The second branch, located within the Wal-Mart store at the Camden Mall in Camden, Delaware, opened in March 2007 and is approximately 10 miles north of the main office. In April 2004, the bank was acquired by a multi-bank holding company, Shore Bancshares, Inc., from the previous owner Midstate Bancorp, Inc. Shore Bancshares Inc. is a publicly-traded company with approximately \$1.0 billion in total assets.

TFB reported total assets of \$91.5 million as of September 30, 2008. The loan portfolio totaled \$81.7 million, while deposits totaled \$71.3 million. TFB primarily originates small business and commercial real estate loans, including residential real estate construction and multi-family loans. As detailed in Table 1, 1-4 family residential products represented 26.2 percent of the portfolio, commercial real estate loans represented 30.2 percent of the portfolio, and construction/land development loans represented 20.9 percent of the portfolio. Total real estate lending represented 85.8 percent of the portfolio, which is the same percentage noted in the prior evaluation. However, the composition shifted from primarily 1-4 family residential loans to a higher percentage of construction and commercial real estate loans. Non-real estate commercial loans have increased 44.4 percent since 2003.

Deposit products offered by the bank include various types of consumer and business checking accounts, NOW accounts, statement savings, individual retirement accounts

(IRAs), Christmas club savings, money market, and certificates of deposit.

Table 1 - Loan Distribution as of 09/30/2008		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	17,070	20.9
Secured by Farmland	2,849	3.5
1-4 Family Residential	21,417	26.2
Multi-Family (5 or more) Residential	4,091	5.0
Commercial	24,649	30.2
Total Real Estate Loans	70,076	85.8
Commercial and Industrial	10,899	13.3
Agricultural	117	0.2
Consumer	598	0.7
Other	70	0.1
Less: Unearned Income	(67)	(0.1)
Total Loans	81,693	100.0

Source: Report of Condition September 30, 2008

The main office and the Camden Branch are both located in middle-income census tracts. The Milford Branch, which relocated since the prior evaluation to a building several hundred feet from the old location, is now located in a moderate-income tract. No offices were closed between evaluations. The Camden Branch is open seven days a week; 9:00am to 6:00pm Monday-Wednesday, 9:00am-7:00pm Thursday and Friday, 9:00am-4:00pm Saturday, and 11:00am-2:00pm on Sunday. The main office and the Milford Branch lobbies are open from 9:00am to 3:00pm Monday-Thursday and Friday 9:00am-6:00pm. The drive through teller windows at the main branch and Milford Branch are open Monday-Thursday from 8:30am to 5:00pm and 8:30am-6:00pm on Fridays. The Milford Branch has Saturday drive-through only hours from 9:00am-12:00pm. These hours are reasonable and competitive in serving the bank's market area.

There are no legal or financial impediments that exist which would prohibit the bank from meeting the credit needs of the community. The previous CRA Performance Evaluation, conducted as of June 18, 2003, assigned a rating of "Satisfactory."

DESCRIPTION OF THE COMBINED ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires an institution to define an assessment area within which the bank will concentrate its CRA activities and lending efforts. The institution's combined assessment area consists of Kent and Sussex Counties in Delaware. The assessment area was expanded since the previous evaluation, at which time it included only portions of each county. In addition, during 2003, the U.S. Office of Management and Budget (OMB) issued new definitions for metropolitan areas in the U.S. These definitions impacted the demographic characteristics of some census tracts. The assessment area does not reflect any discrimination or arbitrarily exclude any low- or moderate-income areas. The Kent County portion of the assessment area is located in the Dover, DE-Metropolitan Statistical Area (MSA) #20100. Sussex County is located in the non-MSA portion of the state.

The institution's combined assessment area (AA) consists of 70 census tracts, 34 of which are in Kent County and 36 in Sussex County. Of the 70 census tracts, three are moderate-, 58 are middle-, and nine are upper-income; there are no low-income census tracts. Additionally, only 3.9 percent of all families living in TFB's combined assessment area live in the moderate-income census tracts. This is due to the fact that Delaware State University occupies most of one moderate-income census tract and the other two moderate-income census tracts are predominantly commercially zoned. Table 2 depicts some of the housing demographics of the assessment area.

Table 2 - Selected Housing Characteristics by Income Category of the Geography									
Geographic Income Category	By Percentage						Median Housing		
	Census Tracts	Total Families	Housing Units	Owner-Occupied	Rental Units	Vacant Units	Age*	Home Value* \$	Gross Rent** \$
Moderate	4.3	3.9	3.1	2.1	8.8	1.3	35	84,472	608
Middle	82.8	86.4	78.5	87.2	80.1	55.7	22	101,940	537
Upper	12.9	9.7	18.4	10.7	11.1	43.0	23	182,392	614
Total or Median ***	100	100	100	100	100	100	23	112,299	554

Source: U.S. Census, * - Owner-Occupied Units, ** - Renter-Occupied Units, *** - Total Percentage may not add to 100 due to rounding.

The selected housing characteristics by income category for TFB's assessment area, as described in Table 2, indicate that the overwhelming majority of the population, including most of the low-income families, live in the middle-income geographies. Only 798 or 5.6 percent of the low-income families live in the moderate-income geographies, 89.1 percent live in the middle-income census tracts, and 5.3 percent live in the upper-income census tracts.

The bank's primary loan products are commercial and commercial real estate loans. Retail trade and retail services represent 50.0 percent of the small businesses in the combined area. Kent County is also the home of the state capital; thus, the state government is a major area employer. Sussex County is more rural in nature and contains more farmland. In the past few years, much of the farmland has been subdivided to develop single family housing and associated infrastructure construction. This activity represents 11.1 percent of the employment in Sussex County. Southern Delaware's Rehoboth, Dewey, and Lewes Beaches also provide temporary employment opportunities during the summer tourism months.

As part of the examination, a community contact interview was conducted. Community contacts provide a third-party perspective on community development opportunities in the assessment area and the performance of local financial institutions in helping meet the assessment area's credit and community development needs. A community contact interview was held with a local non-profit small business development center that is funded by the Small Business Administration, federal, and state agencies. The Director and Deputy Director of the organization stated that TFB supports the organization's efforts by providing small business financing to the Kent and Sussex County areas. This lending includes construction financing.

In addition, a bank director is involved in the affordable housing industry. His experience in this industry adds to TFB's knowledge of assessment area credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA – Combined AA

The Small Bank CRA evaluation procedures incorporate five performance standards: Loan-to-Deposit Ratio, Lending In and Out of the Assessment Area, Geographic Distribution, Distribution by Borrower Profile, and Response to Complaints. The evaluation period primarily covered years 2006, 2007, and year-to-date 2008, but all lending since the prior CRA evaluation was reviewed for trends and substantive changes. The institution's lending performance was assessed based on a review of small business and residential mortgage loans originated during the evaluation period. The bank is a Home Mortgage Disclosure Act (HMDA) reporter and the loan data for years 2006, 2007, and the first nine months of 2008 were used for analyzing the bank's residential mortgage loans. CRA loan data was not maintained by the bank for annual gross revenue data. Therefore, a randomly selected statistical sample of TFB small business loans was used for the evaluation of the small business loans to small businesses based on annual gross revenue of \$1.0 million or less.

Loan-to-Deposit Ratio

TFB's average net loan-to-deposit (LTD) ratio is excellent, considering the size of the bank. The bank's average net LTD ratio, based on the 22 quarters since the prior CRA evaluation, is 98.5 percent. TFB does not participate in secondary market loan sales.

TFB's LTD was at a high for the quarter ending December 31, 2006, at 122.7 percent and its low was the quarter ending September 30, 2003, at 67.3 percent. TFB's performance compares favorably with the only similarly situated bank, which had an average net LTD ratio for the last 10 quarters of 63.7 percent. The similar bank is located in the far southern portion of the TFB combined AA and is shown only as a comparison for this context. Any other comparisons with the other performance criteria would not provide any legitimate conclusions regarding TFB's performance.

Lending in the Combined Assessment Area

There are numerous financial institutions competing for market share in TFB's combined area. TFB's major strength is the fact that the institution is widely recognized and does not have to spend heavily on advertising to generate loan business, due to its longstanding presence in the community. However, significant changes in the market, due to the recent credit crisis and TFB's strategic plan to focus on small business lending, have affected the position of the bank when compared to other institutions, with regard to residential mortgage lending.

In 2006, of all lenders reporting at least one residential mortgage origination, TFB ranked 96 out of 467, representing 0.2 percent of the market share. TFB's assessment area is dominated by large mortgage companies and multi-billion dollar commercial banks. Specifically, PNC Bank Delaware, JP Morgan Wells Fargo Home Mortgage, Wilmington Trust Company, and Beneficial Corporation were the top market share leaders in the assessment area during 2006. When the large volume lenders are eliminated from the data, TFB ranked 10th among the 52 institutions that the FDIC supervises in the combined assessment area. 2007 aggregate data was not available at the time of this analysis for a similar comparison. Since TFB does not report its small business lending activity, a market share comparison could not be performed.

As detailed in the following table, a significant majority of loans, both by number and dollar volume, were originated inside the combined AA.

Table 3 - Distribution of Loans Inside and Outside of the Combined Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2006	45	91.8	4	8.2	49	6,330	76.5	1,946	23.5	8,276
2007	32	88.9	4	11.1	36	3,858	67.5	1,859	32.5	5,717
YTD 2008	20	90.9	2	9.1	22	2,770	86.9	416	13.1	3,186
Subtotal	97	90.7	10	9.3	107	12,958	75.4	4,221	24.6	17,179
Small Business										
2006	176	87.6	25	12.4	201	24,144	82.8	5,031	17.2	29,175
2007	134	86.5	21	13.5	155	23,245	87.0	3,474	13.0	26,719
YTD 2008	51	81.0	12	19.0	63	8,382	52.2	7,667	47.8	16,049
Subtotal	361	86.2	58	13.8	419	55,771	77.5	16,172	22.5	71,943
Total	458	87.1	68	12.9	526	68,7291	77.1	20,293	22.9	89,122

Source: HMDA Disclosure Statements (2006, 2007, and 2008) and Bank Data.

For the period reviewed, 87.1 percent of the total number of loans and 77.1 of the total dollar amount of residential mortgage and small business loans, combined, were within the assessment area. Lending activity within the combined assessment area is reasonable.

Geographic Distribution

As previously stated, TFB's combined assessment area does not include any low-income census tracts. Of the 70 census tracts in the combined assessment area, three or 4.3 percent are moderate-income, 58 or 82.9 percent are middle-income, and nine or 12.8 percent are upper-income.

Residential Mortgage Loans

Table 4 depicts the geographic distribution of residential mortgage loans. Lending activity reflects an excellent dispersion throughout the combined area, given the fact that a substantial majority of the owner-occupied housing is located in the middle-income income census tracts. The distribution of loans by dollar amount did not reveal any significant anomalies from the distribution by number. Therefore, these figures were not

included in the table.

Table 4 - Distribution of HMDA Loans by Income Category of the Census Tract –Combined AA								
Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2006		2007		Total	
			2006	#	%	#	%	#
Moderate	3.1	1.1	5	11.1	3	9.4	8	10.4
Middle	78.5	77.8	38	84.5	28	87.5	66	85.7
Upper	18.4	21.1	2	4.4	1	3.1	3	3.9
Total*	100	100	45	100	32	100	77	100

Source: U.S. Census, HMDA Disclosure Statements (2006 and 2007) and HMDA Aggregate Data

As Table 4 reflects, TFB’s distribution of residential mortgage loans substantially exceeded that of the aggregate in 2006, by percentage, in the moderate-income geographies. The 2007 penetration trends in the moderate-income geographies remain similar to 2006. During the first nine months of 2008, five loans, or 25.0 percent of the 20 residential mortgage loans originated in the assessment area, were originated in the moderate-income tracts. Neither 2007 nor 2008 aggregate data is available at this time, so no similar comparisons could be made. However, in 2008, there was a decrease in the percentages due to the lower volume of total origination and weaker loan demand due to the current credit market conditions.

Small Business Lending

TFB’s performance in lending to small businesses is excellent in relation to the percentage of small businesses within each tract income category, Table 5 presents those figures. The distribution of loans by dollar amount did not reveal any significant anomalies from the distribution by number. Therefore, these figures were not included in the table.

Table 5 - Distribution of Small Business Loans by Income Category of the Census Tract- Combined AA							
Census Tract Income Level	# of Small Businesses (% of #)	2006		2007		Total	
	Census Data	#	%	#	%	#	%
Moderate	3.8	20	11.4	12	9.0	32	10.3
Middle	85.7	147	83.5	117	87.3	264	85.2
Upper	10.5	9	5.1	5	3.7	14	4.5
Total*	100	176	100	134	100	310	100

Sources, PCI WIZ census data for business and bank records for 2007 and 2008 YTD

TFB is not a CRA small business loan reporter, so a comparison to aggregate data was not conducted. 2007 performance mirrors 2006, and reflects TFB's ability to meet the needs of its small business community. During the first nine months of 2008, the trend continued as 5 of 51, or 9.8 percent, of small business loans were originated in moderate-income tracts. There were no conspicuous gaps in the small business lending within the combined AA on a tract-by-tract basis.

Borrower Income

Tables 6 and 6a disclose the median family income of MSA #20100 and the Non-MSA. Income categories used for this analysis were derived utilizing the Department of Housing and Urban Development (HUD)-adjusted median family income figures for both areas.

Table 6 – HUD Adjusted Median Family Income for MSA-20100-Kent County			
INCOME LEVEL	PERCENT OF MEDIAN FAMILY INCOME	2006	2007
Low	Less than 50%	Less than \$27,900	Less than \$29,350
Moderate	50% to less than 80%	\$27,900 to less than \$44,640	\$29,350 to less than \$46,960
Middle	80% to less than 120%	\$44,640 to less than \$66,960	\$46,961 to less than \$70,440
Upper	120% and over	\$66,960 and over	\$70,440 and over

Table 6a – HUD Adjusted Median Family Income for Non-metropolitan Portion of Delaware–Sussex County			
INCOME LEVEL	PERCENT OF MEDIAN FAMILY INCOME	2006	2007
Low	Less than 50%	Less than \$27,150	Less than \$27,600
Moderate	50% to less than 80%	\$27,150 to less than \$43,440	\$27,600 to less than \$44,160
Middle	80% to less than 120%	\$43,441 to less than \$65,160	\$44,160 to less than \$66,240
Upper	120% and over	\$65,160 and over	\$66,241 and over

Source: FFEIC Census, HUD, and MSA MFI estimates 2006 and 2007

The distribution of borrower loan originations reflects, given the demographics of the assessment area, a reasonable penetration among borrowers of different income levels, specifically for moderate-income borrowers.

Residential Mortgage Loans

Table 7 reflects a less than adequate performance for TFB in the combined AA when compared to the aggregate in residential mortgage lending to low-income borrowers, but a reasonable performance for moderate-income residential mortgage borrowers. The bank does not receive many applications from low-income borrowers, since it does not offer a first-time homebuyer product or products guaranteed by third-party agencies.

Table 7 - Distribution of HMDA Loans by Borrower Income-Combined AA								
Borrower Income Level	% of Total Families	Aggregate Lending Data (% of #)	2006		2007		Total	
			2006	#	%	#	%	#
Low	18.4	3.5	0	0.0	1	3.1	1	1.3
Moderate	19.2	13.3	8	17.8	5	15.6	13	16.9
Middle	23.6	22.9	11	24.4	3	9.4	14	18.2
Upper	38.8	54.9	18	40.0	12	37.5	30	38.9
NA	0.0	5.4	8	17.8	11	34.4	19	24.7
Total*	100	100	45	100	32	100	77	100

Source: U.S. Census, HMDA Disclosure Statements (2006–2008) and HMDA Aggregate Data.

TFB originated no residential mortgage loans to a low-income borrower in 2006 and originated just one such loan in 2007. Nine months of 2008 data again reflected no residential mortgage loans originated to a low-income borrower. A review of all applications for 2006, 2007, and the first nine months of 2008 revealed that ten applications were received from low-income borrowers, nine of which were denied for appropriate reasons.

Kent and Sussex Counties have a low percentage, 18.4 percent, of families classified as low-income and, of these, 7.9 percent of families are below the poverty level; therefore, the ability for these families to qualify for home loans outside of government assisted home financing is limited. Discussions with management and a Board member indicate that the USDA Rural development lending program is very prevalent in both Kent and Sussex Counties. Most of the affordable housing financing is done through the agency itself or through very large lenders in the assessment area. In addition, the larger lenders, in association with some local non-profit organizations, aggressively provide counseling for the agency loans and will refer the low-income borrowers to the agency or the large lenders. It should be noted that, even with large lenders in the assessment area soliciting such borrowers, the aggregate performance in 2006 was only at 3.5 percent, which was well below the percentage of low-income families in the assessment area at 18.4 percent.

TFB's 2006 originations to moderate-income borrowers exceeded the performance of aggregate. The 2007 lending performance was similar to the 2006 activity. 2008 data did not reflect the same levels, with only one origination, or 5.0 percent, of the total 20 originated residential mortgage loans, extended to a moderate-income borrower. However, 2007 or 2008 aggregate data is not available for conducting any comparisons to assist with deriving an assessment. The distribution of loans by dollar amount did not reveal any significant anomalies from the distribution by number. Therefore, these figures were not included in the table.

Small Business Lending

The distribution of loans to businesses of various revenue sizes was good. The analysis, detailed in Table 8, used loan size as a proxy for the size of the business being financed. Loan size is often used as a proxy for the size of the business receiving the loan (i.e. smaller businesses request smaller loans). The distribution of the bank's small business loans reflects adequate penetration among businesses of different sizes. Tables 8 and 9 illustrate the breakdown of the bank's small business loans (loans with original balances of \$1.0 million or less).

The review revealed that a significant majority of loans were originated in amounts of \$100,000 or less. This analysis depicts the bank's willingness to meet the credit needs of its small business customers. Generally, smaller businesses have smaller funding needs; therefore, these figures indicate that TFB is meeting the needs of its smaller business customers.

Table 8 - Distribution of Small Business Loans by Loan Size-Combined AA							
Loan Size (000s)	Aggregate Lending Data (% of #)	2006		2007		Total	
		2006	#	%	#	%	#
≤ \$100	95.7	83	47.2	61	45.5	144	46.5
> \$100 ≤ \$250	2.4	68	38.6	47	35.1	115	37.1
> \$250 ≤ \$1,000	1.9	25	14.2	26	19.4	51	16.4
Total*	100	176	100	134	100	310	100

Source: Bank Data, CRA Aggregate Data.

The comparison between the aggregate and TFB's distribution of loans by loan size indicates that the aggregate originated a greater percentage of loans to small businesses in amounts up to \$100,000 than did TFB. However, TFB originated a much greater percentage of loans to small businesses in amounts from \$100,000 up to \$250,000 than did the aggregate. It should be noted that the aggregate data is derived using all loans reported to the federal government by competing banks on a county basis and is somewhat distorted by large lenders making small credit card loans to large businesses. TFB is not a small business reporter and aggregate comparisons are for information purposes only and not a basis for assessing performance.

Table 9 reflects TFB's distribution of a random statistical sample of loans to small businesses with gross annual revenues of over and under \$1.0 million. Because TFB does not report its small business loans to the federal government, TFB's data represents only a representative sample.

Table 9 - Distribution of Small Business Loans in the combined AA Gross Annual Revenues of Business							
Gross Annual Revenues (000s)	% of Total Businesses	2006		2007		Total	
		#	%	#	%	#	%
≤ \$1,000	64.4	14	73.7	8	57.1	22	66.7
> \$1,000 or N/A	45.6	5	26.3	6	42.9	11	33.3
Total	100	19	100	14	100.0	33	100

Source: Bank sample file review data and Dun and Bradstreet, PCI WIZ business demographics.

Table 9 indicates that, in 2006, TFB supported the area's small businesses with gross annual revenues of \$1.0 million or less. The 2007 random statistical sample reflected a decrease in overall business lending; however, aggregate data is not available to draw a conclusion. The distribution of loans by dollar amount did not reveal any significant

anomalies from the distribution by number. Therefore, these figures were not included in the table.

RESPONSE TO COMPLAINTS

There were no CRA-related complaints received during the evaluation period. Therefore, this criterion was not considered in determining the overall rating.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the anti-discrimination laws and regulations was assessed during this review. No violations of the substantive provisions of the antidiscrimination laws and regulations were detected.

METROPOLITAN AREA

CRA examination procedures also require an institution to be evaluated for its performance in any MSA portion of an assessment area that was reviewed using full-scope procedures.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN KENT COUNTY – MSA # 20100

All three of the bank's full-service offices are located in Kent County.

DESCRIPTION OF ASSESSMENT AREA – Kent County - MSA #20100

This area is comprised of Kent County, Delaware. The MSA portion of the bank's assessment area was expanded since the prior evaluation to include all the census tracts in Kent County. This expansion took place subsequent to the June 18, 2003, FDIC CRA Evaluation. The bank's lending pattern in this area does not reflect any discrimination or arbitrary exclusion of any low- or moderate-income area.

Kent County is comprised of 34 census tracts: three moderate-, 25 middle-, and six upper-income census tracts. There are no low-income tracts in the county.

Families represent 26.6 percent of the county's population, while households represent 37.3 percent. Low-income families represent 18.8 percent of all families in the county and 8.1 percent of these families are below the poverty level. The three moderate-income census tracts contain only 5.3 percent of the overall 65.5 percent owner-occupied housing units in the county. This limits TFB's ability to lend to low-income families. This, along with the other mitigating circumstances, were explained in the earlier borrower income portion of the overall analysis.

CONCLUSION WITH RESPECT TO PERFORMANCE CRITERIA – Kent County - MSA #20100

The evaluation period for the MSA portion of the assessment area is the same as that for the combined assessment area. Similarly, the bank's performance was evaluated based on its record of originating home mortgage and small business loans in this area.

Lending In Kent County

There are numerous financial institutions competing for market share in this county. The bank is widely recognized, due to its longstanding presence in the community, and does not have to spend heavily on advertising to generate loan business. However, significant changes in the market, due to the recent credit crisis and TFB's strategic plan to focus on small business lending, have affected the position of the bank when compared to other institutions.

TFB ranked 61st out of 322 lenders who originated home mortgage loans in this county in 2006. This represented a market share of 0.4 percent. The county is dominated by large mortgage companies and multi-billion dollar commercial banks. Specifically, PNC Bank Delaware, JP Morgan, Wells Fargo Home Mortgage, Wilmington Trust Company, and Beneficial Corporation were the top market share leaders in the assessment area. When the large volume lenders are eliminated, TFB ranked 6th among the 22 institutions the FDIC supervises in Kent County.

Table 10 details the bank's lending activities in Kent County during the evaluation period.

Table 10 - Distribution of Loans Inside and Outside Kent County					
Loan Category or Type	Number of Loans				
	Inside		Outside		Total
	#	%	#	%	
Home Mortgage					
2006	36	73.5	13	26.5	49
2007	27	75.0	9	25.0	36
YTD 2008	15	68.2	7	31.8	22
Subtotal	78	72.9	29	27.1	107
Small Business					
2006	120	59.7	81	40.3	201
2007	85	54.8	70	45.2	155
YTD 2008	32	50.8	31	49.2	63
Subtotal	237	56.6	182	43.4	419
Total	315	59.9	211	40.1	526

Source: HMDA Disclosure Statements (2006 and 2007) and Bank Data.

During the evaluation period, TFB originated 59.9 percent of its total number of home mortgage and small business loan originations within Kent County. Given the bank's asset size, lending activity within the assessment area is adequate. The dollar amount of these originations are not included in the table as the performance was similar to that of the distribution by number.

Geographic Distribution

There are no low-income census tracts in Kent County. Of the county's 34 census tracts, three or 8.8 percent are moderate-, 25 or 73.5 percent are middle-, and six or 17.6 percent are upper-income census tracts.

Residential Mortgage Loans

Table 11 depicts the geographic distribution of residential mortgage loans and reflects an excellent dispersion throughout the county, given the fact that the substantial majority of the owner-occupied housing units are located in the middle-income census tracts.

Table 11 - Distribution of HMDA Loans by Income Category of the Census Tract –Kent County								
Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2006		2007		Total	
			2006	#	%	#	%	#
Moderate	5.3	4.0	5	13.9	3	11.1	8	12.7
Middle	82.6	85.2	29	80.6	23	85.2	52	82.5
Upper	12.1	10.8	2	5.5	1	3.7	3	4.8
Total*	100	100	36	100	27	100	63	100

Source: U.S. Census, HMDA Disclosure Statements (2006 and 2007) and HMDA Aggregate Data

As noted in the above table, TFB’s 2006 record of lending to borrowers in the area’s moderate-income census tracts exceeded that of the aggregate. Neither 2007 nor 2008 aggregate data is available at this time so no comparisons cannot be made to aggregate data. However, the penetration trends in the moderate-income geographies show similar levels in 2007, but slightly decreased penetration in 2008. This decline is most likely due to the current economic conditions

The distribution of loans by dollar amount did not reveal any significant anomalies from the distribution by number. Therefore, these figures were not included in the table.

Small Business Lending

TFB’s performance in lending to small businesses indicates that TFB is serving the needs of the county’s small business community. Table 12 details the bank’s lending activities and compares the loan distribution to that of the distribution of businesses located in each census tract category. The figures reveal that the bank has an excellent record of meeting the credit needs of those businesses located in low- or moderate-income geographies.

Table 12 - Distribution of Small Business Loans by Income Category of the Census Tract – Kent County							
Census Tract Income Level	# of Small Businesses (% of #)	2006		2007		Total	
		2000 Census	#	%	#	%	#
Moderate	9.2	20	16.7	12	14.1	32	15.6
Middle	77.6	95	79.2	69	81.2	164	80.0
Upper	13.2	5	4.1	4	4.7	9	4.4
Total*	100	120	100	85	100	205	100

Source: US Census, Bank Records (2006-2008) and CRA Aggregate Data

The review of lending data from the first nine months of 2008 revealed similar distribution pattern. There were no conspicuous gaps in small business lending in the county on a tract-by-tract basis.

The distribution of loans by dollar amount did not reveal any significant anomalies from the distribution by number. Therefore, these figures were not included in the table.

Borrower Income

The overall distribution of loans by borrower income or business size reflects a reasonable penetration among borrowers of different income levels, including low- and moderate-income borrowers, and businesses of different sizes. Income categories used for the home mortgage analysis were derived utilizing the HUD-adjusted median family income figures for the MSA as shown in Table 13.

Table 13 – HUD Adjusted Median Family Income for the DMSA-20100-Kent County			
INCOME LEVEL	PERCENT OF MEDIAN FAMILY INCOME	2006	2007
Low	Less than 50%	Less than \$27,900	Less than \$29,350
Moderate	50% to less than 80%	\$27,900 to less than \$44,640	\$29,350 to less than \$46,960
Middle	80% to less than 120%	\$44,640 to less than \$66,960	\$46,960 to less than \$70,440
Upper	120% and over	\$66,960 and over	\$70,440 and over

Source: FFEIC Census, HUD, and MSA MFI estimates 2006 and 2007

Residential Mortgage Loans

The following table details the distribution of the bank's 2006 and 2007 home mortgage loan originations by the income category of the borrower.

Table 14 - Distribution of HMDA Loans by Borrower Income – Kent County								
Borrower Income Level	% of Total Families	Aggregate Lending Data (% of #)	2006		2007		Total	
			2006	#	%	#	%	#
Low	18.4	3.5	0	0.0	1	3.1	1	1.6
Moderate	26.5	15.7	7	19.4	5	15.6	12	19.0
Middle	19.0	26.6	9	25.0	3	9.4	12	19.0
Upper	10.1	49.7	16	44.5	9	37.5	25	38.7
NA	0.0	4.5	4	11.1	9	34.4	13	20.6
Total	100	100	36	100	27	100	63	100

Source: U.S. Census, HMDA Disclosure Statements (2006–2008) and HMDA Aggregate Data.

Table 14 reflects less than adequate performance with regard to extending loans to the area's low-income families. TFB originated no loans to a low-income borrower in 2006, but did originate one loan in 2007. During the first nine months of 2008, the bank did not originate any residential mortgage loans to a low-income borrower. During 2006, 2007, and the first nine months of 2008, the bank received only ten applications for home loans from low-income applicants and nine were denied. The reasons for denial were appropriate; however, it indicates that low-income families are having a difficult time meeting the underwriting requirements of TFB's products.

Of the county's total families, 18.4 percent are characterized as low-income, with 8.1 percent of those families earning less than the poverty level. The ability for these borrowers to qualify for home loans outside of government-assisted home financing is limited. As a bank that focuses on small business lending, TFB cannot meet the rate costs and underwriting levels that assisted mortgage financing can provide. Discussions with management and a bank director indicated that the USDA Rural development lending is very prevalent in Kent County. Most of the affordable housing financing is done through the agency itself and some very large lenders in the county. In addition, the larger lenders, in association with some local non-profit organizations, aggressively provide counseling for the agency loans and will refer the low-income borrowers to the agency or the large lenders.

TFB's 2006 record of lending to the area's moderate-income borrowers exceeded the distribution levels of the aggregate. A review of 2007 indicate similar performance. The

lending activities during the first nine months of 2008 revealed a decrease in the percentage of loans originated to moderate-income borrowers. This may be attributable to the present declining economic conditions. Since 2008 aggregate data is not available, no comparisons were possible to better assess the bank's performance.

The distribution of loans by dollar amount did not reveal any significant anomalies from the distribution by number. Therefore, these figures were not included in the table.

Small Business Lending

The distribution of loans to businesses of various revenue sizes was good. As previously explained in the combined assessment area analysis, loan size was used as a proxy for determining the bank's record of meeting the needs of the area's small business customers. During the period reviewed, 64.6 percent of small business loans sampled were in amounts of \$100,000 or less. Further analysis revealed that 89.6 percent of the loans to small business were in amounts of \$250,000 or less.

Table 15 reflects the distribution of a random statistical sample of loans, by gross annual revenue of the business. The distribution of loans by dollar amount did not reveal any significant anomalies from the distribution by number. Therefore, these figures were not included in the table.

Table 15 - Distribution of Small Business Loans in Kent County by Gross Annual Revenues of Business							
Gross Annual Revenues (000s)	% of Total Businesses	2006		2007		Total	
		#	%	#	%	#	%
≤ \$1,000	65.0	7	63.6	7	87.5	14	73.7
> \$1,000 or N/A	35.0	4	36.4	1	12.5	5	26.3
Total	100	11	100	8	100.0	19	100

Source Bank data and Dun and Bradstreet