

PUBLIC DISCLOSURE

April 6, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Bank of Delaware
34929**

**1000 Rocky Run Parkway
Wilmington, Delaware 19803**

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING: This institution is rated Needs to Improve.

This institution is rated **Needs to Improve**. An institution in this group needs to improve its overall record of helping to meet the credit needs of its entire assessment area in a manner consistent with its resources and capabilities. This rating reflects an evaluation of the bank's Community Reinvestment Act (CRA) performance with respect to the Small Bank Procedures, along with consideration of unlawful discrimination and other illegal credit practices. This evaluation identified several significant violations of the Federal Trade Commission (FTC) Act's prohibition against unfair or deceptive practices, as well as an unlawful discrimination violation of the Equal Credit Opportunity Act. The magnitude and severity of these violations was considered and has negatively impacted the bank's overall CRA rating.

Excluding the significant violations of the FTC Act and Equal Credit Opportunity Act, the First Bank of Delaware's performance with respect to each small bank performance characteristic meets the standards for satisfactory performance. A summary of each is included below:

- The average net loan-to-deposit ratio is 81 percent and is reasonable, given the institution's ability and capacity to lend.
- During the evaluation period, the bank originated a majority of its commercial loans by number and dollar inside the assessment area.
- There is a reasonable distribution of loans to businesses of different sizes.
- The geographic distribution of loans is reasonable, given assessment area demographics.

SCOPE OF THE EVALUATION

The institution's performance was reviewed using Small Bank CRA evaluation procedures. Small Bank Evaluation Procedures generally include and an analysis of the following: (1) loan-to-deposit ratio; (2) volume of loans extended inside and outside of the assessment area; (3) geographic distribution of loans within the assessment area, with particular emphasis on lending penetration in low- and moderate-income geographies; (4) extent of lending to borrowers of different incomes, particularly low- and moderate- income borrowers, and businesses of different sizes, particularly small businesses; and (5) response to CRA related complaints.

The evaluation included commercial loans originated in 2005 as a review of the bank's internal loan records revealed that commercial loans were its primary loan product. Commercial loans consisted of commercial mortgages, business purpose loans secured by residential real estate, and commercial and industrial loans. First Bank of Delaware (FBD) reported only two loans under the Home Mortgage Disclosure Act (HMDA) in 2005. As such, these loans were not included in the analysis. The bank originated 57 commercial loans in 2005. Of these 57 loans, a sample of 30 loans was reviewed to determine the bank's performance under CRA. The dollar distribution of the commercial loans does not reflect material differences in each of the performance characteristics.

DESCRIPTION OF INSTITUTION

FBD commenced operations on June 1, 1999 as a state-chartered, full-service commercial bank. FBD's main office is located at 1000 Rocky Run Parkway, Wilmington, Delaware. This office is located in a generally affluent suburban area of Wilmington. In addition to the main office, FBD operates one branch located at 531 Limestone Road, Wilmington, Delaware. Both offices are located in upper-income census tracts.

As of March 31, 2006, FBD's total assets were \$97.3 million. Management reported a return on assets ratio of 4.4 percent in 2005. Peer return on assets ratio for the same time period was 1.4 percent. FBD's loan mix is depicted in Table 1.

<i>Table 1- Loan Distribution as of 3/31/2006</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	13,373	26
<i>1-4 Family Residential</i>	15,286	29
<i>Multi-Family (5 or more) Residential</i>	1,077	2
<i>Commercial Real Estate</i>	17,235	34
<i>Total Real Estate Loans</i>	46,971	91
<i>Commercial and Industrial</i>	1,681	3
<i>Consumer</i>	2,927	6
<i>Less: unearned income</i>	129	-
<i>Total Loans</i>	51,450	100

Source: March 31, 2006 Report of Condition

The bank provides a full range of credit products. However, the bank's core business strategy within its assessment area is commercial lending. The majority of loans residing in the "one-to-four family residential properties" category are loans collateralized by a primary residence but made for a small business purpose.

While lending to small- and medium-sized businesses remains a business focus, FBD has been actively involved in payday and other forms of sub-prime lending. Payday loans (also known as deferred deposit advances) are small dollar, short-term, unsecured loans that the borrower promises to repay out of his or her next paycheck or regular income payment (such as Social Security check). During 2005, the bank funded 513,100 payday loans totaling \$99.2 million.

In addition, the bank launched an installment loan product (ILP) during the evaluation period. The ILP was developed to lengthen the repayment period of the payday loan from 2 weeks to 120 days. In 2005, the bank funded 72,135 ILP loans totaling \$38.5 million. The institution also participated in tax refund anticipation lending through Liberty Tax Service at various locations throughout the country. In 2005, 86,159 refund anticipation loans totaling \$198.2 million were originated. The institution has committed to terminating both its payday and tax refund anticipation loan programs by mid-2006.

FBD also launched five sub-prime credit card and three stored value cards during the evaluation period. The Tribute MasterCard is the bank's most prominent sub-prime credit card. The Tribute card is solicited through prescreened, direct mail offers which began in July 2005. The Tribute cards have initial credit limits of \$300 and are subject to an annual fee of \$150 and an account opening fee of \$29. These fees are posted to the account and affect the initial credit availability. Once the card is activated and a purchase is made, a monthly maintenance fee of \$6.50 is assessed. These loans are sold in the secondary market.

FBD has the financial resources to effectively meet the credit needs of its assessment area. The bank's payday lending operations, while considered for the purposes of this evaluation, did not adversely impact the bank's CRA rating as none of this lending occurred within the bank's assessment area. However, other impediments that would prevent the bank from helping meet the credit needs of its assessment area were noted. Significant violations of the anti-discriminatory laws and regulations, as well as other illegal credit practices, were noted. Please refer to page 9 of this evaluation for further detail.

The bank received a rating of "Satisfactory" at its previous evaluation, dated February 28, 2005. The rating was assigned using Small Bank CRA evaluation procedures.

DESCRIPTION OF ASSESSMENT AREA

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

FBD has selected one assessment area, which is comprised of the three counties in the State of Delaware. The three counties are New Castle, Kent, and Sussex. In general, the north is more urban, industrial, and densely populated while the south is more rural, agricultural, and less populated. Demographic information from the 2000 U.S. census for each of the counties is provided in the following sections.

New Castle County

New Castle County is the largest and most metropolitan county in Delaware. It is contained within the Wilmington-Newark, DE-MD Metropolitan Statistical Area (hereafter referred to as the Wilmington MSA). New Castle County is home to the cities of Wilmington, a major financial center, and Newark, the location of the University of Delaware. According to 2000

census data, the population of New Castle County was 500,265, representing 127,997 families. These figures represent a 13.2 percent and 11.0 percent increase in population and families, respectively, since the 1990 census.

There are 126 tracts in New Castle County: 10 low-income, 23 moderate-income, 63 middle-income, 30 upper-income. (One zero income tract contained no families and was excluded from this analysis.) The percentage of low-income families was 18.7 percent and the percentage of moderate-income families was 17.5 percent. Only 1.5 percent and 14.5 percent of owner-occupied housing units were located in low- and moderate-income tracts, respectively.

Kent County

Kent County consists primarily of rural and agricultural areas and is the least densely populated of the three counties in Delaware. Kent County is contained within the Dover MSA. This County is home to the state capital of Dover and the Dover Air Force Base. According to 2000 census data, the population of Kent County was 126,697, representing 33,688 families. These figures represent a 14.1 percent and 14.3 percent increase, respectively, since the 1990 census.

There are 34 census tracts within Kent County: 3 moderate-income, 25 middle-income, and 6 upper-income. The percentage of low-income families was 18.8 percent and the percentage of moderate-income families was 18.7 percent. Only 5.3 percent of owner-occupied housing units were located in moderate-income census tracts.

Sussex County

Sussex County, the non-metropolitan portion of Delaware, is the southernmost county and is largely rural in nature. Sussex County is the largest of Delaware's three counties and is a popular tourist destination because of its beaches. In addition, Sussex County's economy is heavily dependent upon poultry production. According to 2000 census data, the population of Sussex County was 156,638, representing 44,090 families. These figures represent a substantial increase at 38.3 percent and 37.1 percent, respectively, since the 1990 census. Sussex County experienced the greatest growth in population within Delaware since the 1990 census.

There are 36 census tracts within Sussex County: 33 middle-income and 3 upper-income. The percentage of low-income families was 18.1 percent and the percentage of moderate-income families was 19.5 percent. In addition, census data from 2000 indicates that 54.3 percent of Sussex County's total housing units are owner-occupied.

Based upon information available from Dun and Bradstreet for 2005, there are a total of 51,255 non-farm business establishments within the AA. Of the total, 60.6 percent report gross annual revenues (GARs) of less than \$1 million. Additionally, approximately 65.8 percent of the

businesses have less than ten employees. The services industry accounts for the largest percentage of businesses at 37.1 percent by Standard Industry Code (SIC) followed by retail trade at 16.0 percent, and construction at 9.2 percent. Of the total establishments, 10.1 percent are in low-, 10.8 percent in moderate-, 55.9 percent in middle-, and 23.2 percent in upper-income census tracts.

FBD operates in an extremely competitive banking environment. The bank competes with local commercial banks, numerous regional and super-regional commercial banks, savings banks, savings and loan associations, finance companies, credit unions, and private lenders. There are comparatively few community banks with total assets of less than \$125 million within the assessment area.

Community Contact

Contacts with community organizations are critical during CRA evaluations as it allows the FDIC to gain insight regarding the credit needs within a bank's assessment area. During this evaluation, two contacts with Delaware-based organizations were made; the executive director of a community development corporation and the director of a grass roots community action group were interviewed.

One contact noted the need for financial institutions to improve the marketing of their loan products to ensure that consumers fully understand all the features of the loan for which they are applying. This contact advises its clients who typically have impaired credit histories to avoid credit card products that offer limited utility and high, recurring fees, similar to those offered by First Bank of Delaware. Both contacts indicated that it is difficult for low- and moderate-income individuals to obtain traditional deposit and loan services in Delaware. As such, there is a pressing need in the community for financial institutions to be creative in setting up affordable products that reach not only the prime borrowers, but also the sub-prime consumer. While financial management education is also important, particularly for low- and moderate-income individuals, developing products that serve all income categories is crucial.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

One area in which an institution can service the credit needs of its community is by making loans. Loans, for the most part, are funded through bank customer deposits maintained by the institution. A measurement of how well an institution makes loans in relation to the amount of deposits held is the average net loan-to-deposit (LTD) ratio. The bank's average quarterly LTD ratio is then compared to similarly situated institutions based on a quarterly average for the same quarters and to a host statewide LTD ratio.

The bank's average LTD ratio of 81 percent, based on five quarters since the last evaluation, indicates a reasonable performance. During this time period, the ratio varied from a low of 66.1 percent to a high of 92.0 percent. Comparatively, Christiana Bank and Trust and The Felton Bank, are two institutions offering similar commercial loan products within the bank's assessment area. The average net loan-to-deposit ratios for these banks are 84.6 and 97.1 percent, respectively, for the same five quarters.

Lending Inside the Assessment Area

The bank's lending performance in this criterion is evaluated based on the number and amount of loans originated inside the assessment area. A majority of commercial loans by number and dollar were originated inside the assessment area and is reasonable. Overall, 66.7 percent of the loans by number and 56.5 percent by dollar were originated inside the assessment area. The following table details the distribution of commercial loans originated in and out of the assessment area.

<i>Table 2 - Distribution of Loans Inside and Outside of the Assessment Area</i>										
<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>	
<i>Commercial 2005</i>	20	66.7	10	33.3	30	8,021	56.5	6,168	43.5	14,189

Source: Bank records

Lending to Businesses of Different Sizes

The distribution of loans to businesses of different sizes is reasonable. The distribution of commercial loans by gross annual revenue (GARs) of the business is consistent with the institution's asset size, lending capacity, and business objectives. The percentage of the number of commercial loans originated to businesses reporting GARs of \$1 million or less was 79.0 percent in 2005. This compares favorably to 2005 Dun & Bradstreet information which shows that 60.6 percent of assessment area businesses reported GARs of \$1 million and less.

Commercial originations were also analyzed by loan size, as a proxy for the size of the businesses being financed. The distribution among different loan sizes shows that FBD is adequately serving small- and medium-sized loan requests. For example, over 35 percent of all commercial loans are in amounts equal to or less than \$250,000 during the review period.

Geographic Distribution

The institution is analyzed based on the geographic distribution of its commercial loans within its assessment area. This criterion assesses the bank's performance in addressing the credit needs in low-, moderate-, middle- and upper-income census tracts. The geographic distribution of commercial loans is presented in the following table. For comparative purposes, the percentage of small businesses operating within those income categories of census tract is also presented.

<i>Table 3- Distribution of Commercial Loans by Income Category of the Census Tract</i>			
<i>Census Tract Income Level</i>	<i>% of Businesses</i>	<i>2005</i>	
		<i>#</i>	<i>%</i>
<i>Low</i>	<i>10.1</i>	<i>1</i>	<i>5.0</i>
<i>Moderate</i>	<i>10.8</i>	<i>6</i>	<i>30.0</i>
<i>Middle</i>	<i>55.9</i>	<i>6</i>	<i>30.0</i>
<i>Upper</i>	<i>23.2</i>	<i>7</i>	<i>35.0</i>
<i>Total</i>	<i>100.0</i>	<i>20</i>	<i>100.0</i>

Source: Bank records

The geographic distribution of commercial loans reflects a satisfactory dispersion through the bank's assessment area. While there was only one loan originated in a low-income census tract, the performance in moderate-income census tracts compares favorably with the business demographics. In 2005, 30.0 percent of commercial loans were originated in moderate-income census tracts compared to the 10.8 percent of businesses located in that category of census tract.

Response to Complaints

The FDIC received several comment letters concerning the institution's involvement with payday lending; copies of some of those letters were also sent by the respective organizations to the institution. All comments were considered in evaluating the bank's CRA performance. The bank's payday lending operations were also evaluated using the FDIC's Guidelines for Payday Lending. Based on these evaluations, the bank's payday lending operations did not adversely affect its CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Significant violations of the FTC Act prohibition against unfair and deceptive acts or practices and unlawful discrimination in violation of the Equal Credit Opportunity Act were identified during the concurrent compliance examination. These violations resulted from misleading and deceptive solicitation materials associated with the bank's sub-prime credit card and stored-value card products. Furthermore, a practice performed by the bank in connection with one of the third-party relationships was found to be in violation of the Equal Credit Opportunity Act and indicative of discriminatory behavior. The seriousness of these violations and their impact upon consumers were considered in determining the bank's overall CRA performance rating.

The bank is in the process of developing policies and procedures intended to address the problems identified during the examination. The bank has also hired additional personnel to assist with future compliance.

METROPOLITAN AREAS

DESCRIPTION OF INSTITUTION'S OPERATIONS IN WILMINGTON-NEWARK, DELAWARE METROPOLITAN STATISTICAL AREA (MSA) 9160:

This MSA covers the bank's activities in New Castle, County, Delaware. This is the county that contains the bank's two branches. New Castle County is the largest and most metropolitan county in Delaware. This county accounts for the largest portion of the assessment area.

Using 2000 Census data, of the 127 census tracts in New Castle County, 10 or 7.9 percent are low-income and 23 or 18.1 percent are moderate-income. Based upon these demographics, opportunities for lending in low- and moderate-income geographies is greatest in MSA 9160. All of the assessment area's low- and most of the area's moderate-income census tracts are located in MSA 9160.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 9160, DELAWARE

Consistent with the bank's operations in the overall, the majority of commercial loans are originated MSA 9160. The geographic and borrower distribution of loans is also consistent with the bank's overall performance.