

PUBLIC DISCLOSURE

March 13, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MidCoast Community Bank
58498**

**4900 Kirkwood Highway
Wilmington, Delaware 19808**

**Federal Deposit Insurance Corporation
20 Exchange Place
New York, New York 10005-3201**

NOTE: 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 CRA performance of **MidCoast Community Bank (MCB)** prepared by the **Federal Deposit Insurance Corporation (FDIC)**, the institution's supervisory agency, as of **March 13, 2009**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

An institution in this category 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 assigned rating is based on the following factors.

- The average net loan-to-deposit (NLTD) ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- An analysis of the bank's lending reflects that a majority (70 percent) of loans were originated within the bank's assessment area.
- The distribution of the bank's small business loans reflects reasonable penetration among businesses of different sizes, given the demographics of the assessment area.
- The geographic distribution of the bank's small business loans reflects reasonable dispersion throughout the assessment area.
- There were no complaints filed against the bank with respect to its CRA performance since operations began in March 2007.

SCOPE OF EXAMINATION

The CRA provides a streamlined evaluation method for "Small Banks," which emphasizes lending performance. A "Small Bank" is a bank that, as of December 31st of either of the prior two calendar years, had total assets of less than \$1.109 billion. The Small Bank evaluation contains five performance criteria:

- 1) The institution's loan-to-deposit ratio adjusted for seasonal variation and, as appropriate, other lending-related activities such as secondary market participation, community development loans, or lending-related qualified investments.
- 2) The percentage of loans and other lending-related activities located in the institutions assessment areas.
- 3) The distribution of lending among borrowers of different income levels and businesses and farms of different sizes.
- 4) The distribution of lending among geographies of different income levels.
- 5) The institution's record of taking action, if warranted, in response to written complaints about its CRA performance.

MCB designated one assessment area, which was reviewed using the Small Bank CRA evaluation procedures described above. The evaluation of the bank's lending performance would normally be based upon a review of Home Mortgage Disclosure Act (HMDA) reportable loans, as MCB was a reporter for 2008. However, the number of residential loans originated by the bank is minimal, and the majority of these loans are principally to accommodate commercial customers. Although a Small Bank is not required to collect or report loan data other than for HMDA (as applicable), it was determined that the evaluation of the bank's lending performance could best be achieved by reviewing small business loans for 2007 and 2008. Aggregate lending data compiled by the Federal Financial Institutions Examination Council (FFIEC) from the submission of small business lending data by large banks, or bank's whose assets exceed \$1.1 billion, is also included for informational purposes only. Since MCB is not included in this aggregate data, a direct comparison was not made. The bank's performance by dollar volume was similar to the performance by the number of loans originated, and was therefore not included in the tables or written analysis.

DESCRIPTION OF INSTITUTION

MCB is an independent community bank headquartered in Wilmington, Delaware, which commenced operations on March 15, 2007. This evaluation represents the first analysis of the bank's CRA performance. The bank operates one full service branch, which is located on Kirkwood Highway, in a middle-income census tract in Wilmington. The bank also maintains separate administrative offices in a nearby complex.

MCB offers a variety of loan products that include commercial and consumer loans. Consumer loans consist of home equity loans, personal loans and personal lines of credit. Various deposit products are also offered to accommodate local residents and businesses.

The bank's growth exceeded initial expectations as outlined in the bank's business plan. As of December 31, 2008, assets totaled \$128.9 million. Total loans equaled \$113 million, which represented approximately 88 percent of the bank's total assets and approximately 103 percent of total deposits. The composition of the bank's loan portfolio shows that MCB is primarily a commercial lender. Commercial loans account for 54 percent of the bank's total loan portfolio. Real estate loans comprise 95 percent of the bank's portfolio with the concentration of 49 percent being commercial in nature. The remainder of the loan portfolio consists of 1-4 family residential loans (25 percent), construction and land development loans (11 percent), farm loans (6 percent), multi-family loans (4 percent) and consumer loans (< 1 percent). The bank's investment portfolio aggregates \$15 million and represents 12 percent of total assets.

Table A reflects the bank's loan portfolio as of December 31, 2008.

Table A - Loan Distribution as of 12/31/2008		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	12,020	11
Secured by Farmland	6,624	6
1-4 Family Residential	28,037	25
Multi-Family (5 or more) Residential	5,116	4
Commercial	55,039	49
Total Real Estate Loans	106,836	95
Commercial and Industrial	6,119	5
Agricultural	0	0
Consumer	67	0
Other	0	0
Lease Financing	0	0
Less: Unearned Income	0	0
Total Loans *	113,022	100

Source: Call Report, Schedule RC-C.

As of December 31, 2008, MCB had a Tier 1 leverage capital ratio of 15.68 percent, which measures the level of the bank's core capital as a percentage of total assets. The bank's Return on Average Assets (ROAA) was (1.14 percent) as of December 31, 2008, which measures the institution's net income as a percent of average assets. MCB's ROAA compared favorably with its peer group's ROAA of (2.96 percent). The bank's Return on Equity (ROE) was (6.22 percent), which measures the bank's net income as a percentage of earnings.

There are no legal or other impediments that would impact the bank's ability to help meet the credit needs of the assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank designated the entire State of Delaware as its assessment area. This area includes New Castle, Kent and Sussex Counties. New Castle County is in Metropolitan Division (MD) 48864, which is part of Metropolitan Statistical Area (MSA) 37980 (Philadelphia-Camden-Wilmington, PA-NJ-DE-MD) and also part of Consolidated Statistical Area (CSA) 428 (Philadelphia-Camden-Vineland, PA-NJ-DE-MD). Kent County comprises all of MSA 20100 (Dover, DE). Sussex County is not part of any MSA. The bank's single branch office is located in a middle-income census tract in New Castle County. Based on 2000 U.S. Census data, the assessment area is comprised of 197 census tracts, 10 low- (5 percent), 26 moderate- (13 percent), 119 middle- (60 percent), and 41 upper-income (21 percent). The assessment area also contains one (1 percent) tract for which limited demographic data is available, usually the result of limited or no population.

Population

The population of the bank's assessment area is 783,600. Of this population, nearly 3 percent reside in low-income census tracts, 13 percent reside in moderate-income census tracts, 63 percent reside in middle-income census tracts, and 21 percent reside in upper-income census tracts. The one census tract for which limited demographic data is available contains no population. The median family and median household incomes of the assessment area are \$58,395 and \$49,934, respectively. The area is comprised of 205,775 family households (household where two or more occupants are related by birth, marriage, or adoption), of which 2 percent are low-income, 12 percent are moderate-income, 64 percent are middle-income, and 22 percent are upper-income. The total number of households (family/non-family) within this same area is 298,755, of which 2 percent are low-income, 13 percent are moderate-income, 64 percent are middle-income, and 21 percent are upper-income. According to the 2000 U.S. Census (Census) data, 9 percent of the households within the assessment area are below the federal poverty level; however, 17 percent of the households residing in the 36 low- and moderate-income census tracts are below the poverty level.

Table B provides additional details with respect to the housing statistics of this area. Additional information relative to housing data can be obtained at the U.S Census Bureau's web site at www.census.gov.

Table B – Selected Housing Characteristics by Income Category of the Geography									
Geographic Income Category	Percentage						Median		
	Census Tract	Households	Housing Units	Owner-Occupied	Rental Units	Vacant Units	Age*	Home Value(\$)	Gross Rent (#)**
Low	5	2	2	1	6	3	51	67,056	447
Moderate	13	13	12	10	21	8	43	90,488	632
Middle	60	64	62	65	59	53	27	114,492	628
Upper	21	21	24	24	14	36	25	203,303	777
N/A	1	0	0	0	0	0	0	0	0
Total/Median	100	100	100	100	100	100	28	135,102	640

Source: U.S. Census, * - Owner-Occupied Units, ** - Renter-Occupied Units

Business Data/Economic Data

According to the 2008 Business Data derived from Dun and Bradstreet, there are approximately 63,477 non-farm businesses located in the bank's assessment area. Approximately 64 percent of these businesses reported revenues of \$1 million or less, and are therefore considered "small businesses" for the purposes of CRA. Approximately 66 percent of the businesses in the assessment area reported having less than 10 employees and approximately 88 percent are "single location" businesses. Approximately 80 percent of the non-farm businesses are located in upper- and middle- income census tracts, and only approximately 20 percent are located in low- or moderate-income census tracts.

The economy in Delaware has weakened due to soaring unemployment in all major industries. However, government, education and healthcare are experiencing comparatively minimal losses. Several of the states top employers are centered in healthcare, which could help to minimize job and revenue losses. The continued economic downturn is expected to strain government resources. Some of the positive economic factors for the Delaware economy are its low business costs, large retiree migration, and ability to draw from a diversified labor pool including Pennsylvania, New Jersey and Maryland. Potential weaknesses in the Delaware economy include a weak public school system, increasing unfunded state debt and an increased need for expensive infrastructure enhancements.

Competition and Services

There is a high level of competition for banking services within the bank's assessment area and within the entire State of Delaware. The area is served by large national institutions such as Wachovia, Bank of America, PNC Bank, and Wells Fargo. In addition, the area has a high level of competition for banking services from many large regional/statewide institutions such as Wilmington Trust Company and Delaware National Bank. There are over 200 banking offices in the bank's assessment area.

With respect to commercial lending, which is the bank's principal focus; local banks currently present the greatest competition to MCB. According to the small business lending data that is reported by "Large" banks, Wilmington Trust Company, PNC Bank NA, PNC Bank Delaware, Wachovia, and Artisans Bank are the leading small business lenders (with a brick-and-mortar presence) within the bank's current assessment area. As discussed further within this evaluation, approximately 90 percent of the small business loans reported are from credit card lenders. The small business loans reported by these lenders also account for a majority of the 96 percent of small business loans that are reported in amounts of \$100,000 or less. MCB does not originate business credit cards and, therefore, is not competitive in this particular market.

Community Contact

A discussion was held with a representative from a community development organization located in New Castle County, Delaware. The organization's mission is to serve as a conduit for community revitalization through direct financing or investment to optimize the use of private and public funds. The representative stated that the current economic downturn is increasing the need for affordable housing in Delaware. Waiting lists for affordable housing projects are increasing, and the expectation is for those waiting to grow more rapidly as the number of foreclosures rise. The representative also stated that multi-family affordable housing has been created through the granting of tax credits by the State of Delaware. The need for affordable housing is particularly strong in Sussex County, the states southern and most rural county. There are diverse and flexible opportunities for financial institutions to participate including the development and continued financing of affordable housing and other community development projects such as financing the development of charter schools and affordable day care programs. MCB has been an active participant in this organization since its opening.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average NLTD ratio was calculated for the eight quarters since the bank began operations in March of 2007. This ratio is calculated using net loans and leases in relation to total deposits as stated in the bank's quarterly Uniform Bank Performance Reports (UBPRs). For the current evaluation period, MCB's average NLTD ratio was 197 percent with an NLTD ratio of 102 percent as of December 31, 2008. The bank's highest NLTD ratio (874 percent) was as of March 31, 2007. This was a result of the bank being in operation for a short period of time prior to reporting its initial Call Report data. The exclusion of this anomaly from the bank's data results in a revised NLTD of 100 percent (using the most recent seven quarterly Call Report data). The bank's NLTD ratio was consistently high during the evaluation period, ranging from a low of 92 percent as of September 30, 2007, to a high of 108 percent as of September 30, 2008 (excluding the bank's first NLTD data as March 31, 2007).

In comparison to state and national peer group institutions, the bank's NLTD is more than reasonable. As of December 31, 2008, the bank's national peer group NLTD was 93 percent, compared to MCB's ratio of 102 percent. The bank's national peer group includes all banks having assets less than \$700 million and established in 2007. A similar peer group of banks within the Philadelphia-Camden-Wilmington MSA (37980) consists of seven insured institutions with an average NLTD ratio of nearly 97 percent as of December 31, 2008. MCB's NLTD ratio was at the midpoint of all banks within this group.

Lending in Assessment Area

Table C depicts the bank's residential mortgage (HMDA) and small business lending during 2007 and 2008. As the data reflects, a majority of the bank's lending, by both number and dollar amount, is within MCB's defined assessment area, thus meeting the standards for satisfactory performance within this category.

The bank is primarily a commercial lender. Accordingly no further analysis of residential mortgage lending will be provided in this evaluation. For purposes of this evaluation, small business loans are defined as all commercial purpose loans originated by the bank in an amount less than or equal to \$1 million.

Table C – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Small Business										
2007	78	65	42	35	120	20,509	62	12,770	38	33,279
2008	94	74	33	26	127	25,205	75	8,281	25	33,486
Subtotal	172	70	75	30	247	45,714	68	21,051	32	66,765
HMDA										
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2008	30	70	13	30	43	10,419	60	7,008	40	17,427
Subtotal	30	70	13	30	43	10,419	60	7,008	40	17,427
Total	202	70	88	30	290	56,133	67	28,059	33	84,192

Source: CRA data collection (2007 and 2008) and HMDA LAR (2008)

A further analysis of the data in **Table C** reveals that from 2007 to 2008, MCB's total small business loan originations increased 6 percent by the number of loans and 1 percent by the dollar volume of loans, respectively. In addition, small business loan originations within the assessment area increased 21 percent by the number of loans and 23 percent by the dollar volume of loans from 2007 to 2008.

Borrower Profile

This performance criterion considers the distribution of small business loans in the bank's assessment area based on the revenues of the businesses. As previously noted, HMDA loan originations are not included in this analysis. The distribution of the bank's small business loans reflects reasonable penetration among businesses of different sizes, given the demographics of the assessment area.

An analysis of MCB's small business lending demonstrates the bank's willingness to meet the credit needs of businesses of all sizes. As shown in **Table D**, 60 percent of the bank's small business loans were originated in amounts less than or equal to \$250,000.

Table D - Distribution of Small Business Loans by Loan Size						
Loan Size (000s)	2007		2008		Total	
	#	%	#	%	#	%
≤ \$100	20	25	30	32	50	29
> \$100 ≤ \$250	27	35	26	28	53	31
> \$250 ≤ \$1,000	31	40	38	40	69	40
Total	78	100	94	100	172	100

Source: CRA data collection (2007 and 2008)

Although the bank's performance is substantially less than the 98 percent of loans originated by all reporting lenders in aggregate that reported loans in 2007, it is mitigated by the fact that approximately 90 percent of the small business loans that are reported in this area were originated by credit card lenders, such as American Express, Citibank, and Chase Bank. More than half of the top fifteen originators of small business loans in the State of Delaware originated loans with an average loans size of less than \$10,000, thus a clearer indication that such loans are business credit cards as opposed to the more traditional small business loan. Although the bank did not report 2007 small business lending data, it would have ranked 23rd with a market share of 0.23 percent among 117 reporting small business lenders in its assessment area. Among small business lenders with a physical presence (brick-and-mortar) in the area, MCB would have been among the top ten originators of small business loans.

The bank's small business lending in amounts less than or equal to \$250,000, represents 60 percent in both 2007 and 2008. However, MCB improved its lending in amounts less than or equal to \$100,000 from 25 percent in 2007 to 32 percent in 2008. This is another indication of the bank's commitment to small and medium-sized businesses.

A further reflection of the bank's performance is shown in **Table E**, as a majority of the bank's lending to businesses with gross annual revenues (GARs) of less than or equal to \$1 million. Aggregate data was used only for informational purposes. The aggregate lending data that depicts a majority of small business loans originated to businesses with revenues in excess of \$1 million or N/A would in most cases suggest that the reporters of these loans did not obtain the revenues of the borrowers. This would be another example of small business loans more fitting the classification of business credit cards. In view of all relevant data, the bank's performance in this aspect of the evaluation reflects reasonable penetration among businesses of different sizes.

Table E - Distribution of Small Business Loans by GAR of Business						
Gross Annual Revenues (000s)	2007		2008		Total	
	#	%	#	%	#	%
≤ \$1,000	61	78	57	61	118	69
> \$1,000 or NA	17	22	37	39	54	31
Total	78	100	94	100	172	100

Source: CRA data collection (2007 and 2008)

Geographic Distribution

This performance criterion considers the geographic distribution of the bank's lending activities based on loan location, the dispersion of lending in the bank's assessment area and the number and dollar amount of loans in low-, moderate-, middle- and upper-income geographies. In view of the bank's performance context and the principal lending products offered, the geographic distribution of lending is reasonable and meets the standards for satisfactory performance.

As reflected in **Table F**, MCB originated 8 and 13 percent of its small business loans during the review period within low- and moderate-income tracts, respectively. The bank's performance in low-income tracts increased from 6 percent in 2007 to 8 percent in 2008; however, the bank's performance in moderate-income tracts decreased from 18 percent in 2007 to 8 percent in 2008. Demographic data reveals that 5 and 13 percent of the tracts within the bank's assessment area are defined as low- and moderate-income tracts, respectively, and approximately 20 percent of all non-farm businesses are located within low- and moderate-income tracts within the bank's assessment area. Furthermore, the bank's lending in low- and moderate income tracts in 2007 compares favorably with that of aggregate data, which was used for informational purposes only. In 2007, 6 percent of the bank's loans were originated in low-income tracts, representing twice that of the 3 percent of loans reported by all lenders in aggregate within the bank's assessment area. The bank's lending in moderate-income tracts in 2007 of 18 percent exceeded the 10 percent of small business loans reported by all lenders in aggregate within the bank's assessment area.

Table F – Distribution of Small Business Loans by Income Category of the Census Tract						
Census Tract Income Level	2007		2008		Total	
	#	%	#	%	#	%
Low	5	6	8	8	13	8
Moderate	14	18	8	8	22	13
Middle	42	54	50	53	92	53
Upper	16	21	28	30	44	26
\$0/NA Income	1	1	0	0	1	0
Total	78	100	94	100	172	100

Source: CRA data collection (2007 and 2008)

Lending with a Community Development Purpose

CRA defines a community development loan as a loan that: (1) has community development as its primary purpose, (2) has not already been considered under small business or residential mortgage lending, and (3) benefits the bank’s assessment area or a broader statewide or regional area that includes the bank’s assessment area.

Although the bank has not originated any loans during the evaluation period that meet the definition detailed above, several of the small business loans originated by MCB have community development attributes. These loans were included in the evaluation of small business lending. MCB is an active participant in a statewide loan consortium that is a principal originator of community development lending in Delaware. MCB has made a commitment to provide approximately \$250,000 in loans to various borrowers as part of this organization’s mission. In this connection, some of these loans have been granted and they are included in the bank’s small business lending performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.