

**PUBLIC DISCLOSURE**

March 11, 1996

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Forest Hill State Bank

05240790

P.O. Box 1307

Bel Air, Maryland

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

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.

## GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The Forest Hill State Bank, Bel Air, Maryland, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of March 11, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

### Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

## ASSIGNMENT OF RATING

### Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

#### **Outstanding record of meeting community credit needs**

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

#### **Satisfactory record of meeting community credit needs.**

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

#### **Needs to improve record of meeting community credit needs.**

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

#### **Substantial noncompliance in meeting community credit needs.**

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

## DISCUSSION OF INSTITUTION'S PERFORMANCE

### Institution's Rating:

This institution is rated Outstanding based on the findings presented below.

#### **I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS**

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

##### Conclusion/Support

Outreach efforts continue to be strong and demonstrate a willingness by the institution to assist in community development. Directors and officers maintain relationships with regional economic development organizations, trade associations, and civic groups to determine community credit needs. Additionally, local political, business, and community leaders and organizations are contacted on a regular basis to identify area concerns and needs.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

##### Conclusion/Support

The board of directors has adopted and approved a formal CRA policy that addresses various aspects of an effective CRA program including outreach efforts, marketing, training, periodic self-assessments by the board of directors, and branch closing procedures. The program is directed by a CRA committee that meets monthly to develop and monitor CRA activities. Under the direction of this committee, two subcommittees evaluate products, services, and marketing strategies. The board of directors is kept informed of CRA activities through semi-annual reports from the CRA committee. Furthermore, the board has adopted an expanded CRA Statement that includes a description of the bank's performance in helping to meet community credit needs.

#### **II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Conclusion/Support

Marketing efforts have primarily consisted of service and product advertisements placed in local newspapers and broadcast on a local radio station. Most of the advertising is designed to generate community awareness of the institution and inform residents of general financial services offered. Specific product information is promoted through brochures, pamphlets (available in Spanish), an officer call program, and account representatives in all bank offices. These marketing strategies are considered effective given the institution's size and location.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Conclusion/Support

As identified in the CRA Statement ratified by the board of directors on October 25, 1995, a full range of credit products is offered including loans for home purchase, home improvement, home construction, consumer, small business, commercial, and community development purposes.

Primarily a consumer lender, approximately 58% of the bank's portfolio is comprised of loans secured by one- to four-family residential properties, construction and land development loans, and credits extended for consumer purposes. Since the previous evaluation, the institution has originated 4,499 consumer loans totaling \$71 million. Specifically, 113 home purchase loans for \$11.8 million, 57 refinance loans totaling \$4.3 million, and 69 home construction loans totaling \$8.7 million were made. These figures include credit extended under two in-house loan programs that focus on providing affordable housing. The Affordable Home Ownership Program (AHP) and the First-Time Home Buyers Program (FTHP) offer 95% financing to eligible low- and moderate-income residents. The AHP product has a 35-year amortization, a maximum loan amount of \$87,500, and is available to borrowers with incomes below \$28,518, which, for comparison, is 54% of the estimated 1996 median family income for the Baltimore, MD Metropolitan Statistical Area (MSA). A 30-year FTHP loan for up to \$91,000 is offered to applicants who are buying a first home with an income of \$32,000 or less. During the previous 24 months, the bank made 14 AHP and ten FTHP loans totaling \$1.8 million.

The bank has also actively promoted a new home equity program that allows customers to borrow 100% of the equity in their home up to \$50,000 for 15 years; no closing costs or points are assessed for the loan, and a credit decision is provided within 24 hours. Since the program's inception in January 1996, over 123 home equity loans for \$4.7 million have been extended.

Conclusion/Support--contd.

Addressing other consumer borrowing needs, mobile home as well as loans for small dollar amounts are frequently offered to help meet the credit needs of low- and moderate-income borrowers. Ten mobile home loans (\$838,000) and 163 loans for \$1,500 or less have been provided since March 21, 1994

In addition to meeting the credit needs of consumers, the institution routinely extends small business and commercial loans to finance business start-up, facility expansion, and working capital. From March 1994 to March 1996, 1,275 commercial loans totaling \$56.2 million were originated. A majority of these loans were provided to small businesses with revenues under one million dollars. Agricultural loans address a credit need in the rural portions of the delineated community. Since the previous evaluation, approximately \$660,000 has been advanced to support agricultural related activities.

The types of credit offered by the bank address a substantial portion of community credit needs, and lending volume demonstrates a high level of responsiveness to meeting these needs.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Conclusion/Support

Federal Housing Administration (FHA) and Veterans Administration (VA), as well as conventional mortgages, are available through a bank affiliate, Mercantile Mortgage Corporation (MMC). Applications and referrals for these types of credit are taken at a satellite office of MMC located at the bank's main office. Neither the volume of applications taken through the MMC facility nor the number of mortgage loans originated by MMC within the delineated community could be determined.

Small Business Administration (SBA) loans are offered and during the past 24 months, four SBA loans totaling \$1 million were originated. Credit in conjunction with the Maryland Small Business Development Financing Authority (MSBDFDA) is also available, but no loans have been recently extended.

**III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES**

Reasonableness of Delineated Community

Conclusion/Support

The local community has been delineated as the majority of Harford County, Maryland; the contiguous portions of western Cecil County, Maryland; and southern York County, Pennsylvania. These counties are respectively located in the Baltimore, Wilmington-Newark, DE, and York, PA MSAs. This delineation appears reasonable, meets the purpose of the regulation, and does not exclude low- and moderate-income areas.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Conclusion/Support

Management annually analyzes the geographic distribution of mortgage related loan applications reported on the Loan Application Register (LAR) as required by the Home Mortgage Disclosure Act (HMDA). The volume of lending inside the delineated community and in low- and moderate-income tracts is evaluated. The CRA committee periodically reviews this information and the results are presented to the board of directors for assessing the reasonableness of the delineated community.

A review of the LAR shows that 89% (336/376) of applications taken and 88% (281/319) of loans originated were within the delineated community. Only three census tracts in the delineation are considered low- and moderate-income, with income levels of less than 80% of the corresponding MSA median family income. Eight (2.4%) applications were received from these census tracts. Approximately 6% of the population and 3.3% of owner-occupied housing units in the defined community are within such tracts.

Management also prepares a geographic analysis of all accepted and denied credit requests by census tract. A review of these data for 1994 revealed that 71% of loans originated and 56% of denied credit requests were from within the delineated community. A significant portion of the denials involved applications forwarded from car dealerships.

The bank's analysis, the HMDA data, and a review of recently accepted and denied applications conducted during the examination demonstrated a reasonable penetration into all segments of the community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Conclusion/Support

The institution's seven offices are reasonably accessible to all segments of the community and the hours of operation are considered convenient. No offices have been opened or closed since the previous CRA evaluation. A formal policy addressing branch closings that meets the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 has been adopted.

**IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES**

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Conclusion/Support

Adequate policies, procedures, and training have been developed supporting nondiscrimination in lending and credit activities.

Minorities accounted for 3.9% of the 336 HMDA reported mortgage applications from the delineated community; the proportion of minorities in the bank's market is 7.1%. Applications are solicited from all segments of the community, including low- and moderate-income areas.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Conclusion/Support

A review was made of written loan policies, forms, recently accepted and denied loan applications; and a loan officer interview was conducted to determine compliance with fair housing laws and regulations. The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations. A review of the technical requirements of HMDA, however, revealed several reporting deficiencies on the 1994 LAR; however, the usefulness of the data was not compromised.

**V. COMMUNITY DEVELOPMENT**

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Conclusion/Support

Through its outreach efforts the bank exhibits a leadership role in the promotion of economic development within its community. Participation in various projects has taken the form of direct loans, contributions, financial services, and technical expertise.

The institution supports community development primarily through direct lending to small businesses, individuals, and nonprofit organizations, as evidenced by a 91% loan-to-deposit ratio. Loans to businesses, including financing of business start-up and expansion projects, have helped create employment opportunities for local residents. Some of the loans recently extended for community development purposes include:

Construction financing to a church to build an addition for an educational facility.

An extension of credit to a female business owner to open a private school.

Provision of a revolving line of credit to a minority small business owner to purchase additional inventory.

A loan for the expenses associated with the start-up of a pet store.

A line of credit to a local non-profit shelter that assists families in need for start-up costs and to purchase furniture.

A working capital loan to a nonprofit organization that provides counseling and training for single women, unwed

mothers, and senior citizens.

Credit to a farmer to construct an additional barn for dairy production.

A loan to an automobile service center to purchase real estate for an additional service center.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Conclusion/Support

The institution supports the development or implementation of projects that promote revitalization and growth consistent with its size, financial capacity, and local conditions. A substantial portion of the bank's delineated community is in Harford County, Maryland. The remainder of the community includes contiguous portions of Cecil County, Maryland, and York County, Pennsylvania.

Conclusion/Support--contd.

The population in the delineation is approximately 192,000, based on the 1990 census. The local economy is diverse and includes a variety of employers including manufacturing companies, the agricultural industry, technology based companies, the Federal Government, and many retail-service related businesses. The unemployment rates as of January 1996, for Harford and Cecil Counties were 6.8% and 10.4%, respectively.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Conclusion/Support

Technical assistance, volunteer activities, and charitable contributions further support community development. Specifically, a bank officer is the chairperson of Harford County Housing, Inc., a nonprofit entity organized to identify solutions regarding the ongoing need for affordable housing in the county. The CRA officer is a member of the CRA/Compliance Alliance, a group of area banks formed to develop and implement mutually beneficial programs for the area. This group is in the process of creating a loan pool to benefit nonprofit groups such as Harford County Housing, Inc. A branch manager serves as a director on the Mason Dixon Community Center, which provides basic necessities to low-income families in a portion of York County, Pennsylvania and northern Harford County. He also assisted in forming the Mason Dixon Business Association, a trade group representing local businesses in the same areas of York and Harford counties. Finally, bank employees have participated in the Senior Expo, which allows the elderly in the community to find out about what bank products and services are available.

Monetary donations are also regularly provided to nonprofit and charitable organizations. Since the previous evaluation, the bank

has made donations to various community groups and nonprofit organizations.

There appear to be no restrictions on the bank's ability to provide credit to the community consistent with its human and financial resources.

**Regression Program Usage Report**

(This form should be filled out for each examination conducted involving a HMDA reporter.)

Institution Name:     The Forest Hill State Bank    

City, ST:     Bel Air, Maryland    

Exam Date:     March 11, 1996    

Number of HMDA LAR records:     376    

Year(s) of data considered:     1994    

	FHA, VA, & FmHA HOME Purchase		Conventional Home Purchase		Refinancings		Home Improvement	
	1994	Year	1994	Year	1994	Year	1994	Year
White Approvals	0	0	137	0	94	0	78	0
White Denials	0	0	13	0	16	0	16	0
Minority Approvals	0	0	3	0	3	0	4	0
Minority Denials	0	0	1	0	0	0	3	0

Was Step 1 of regression program run? **N**

if "N", why not?     Insufficient number of minority denials    

\_\_\_\_\_

\_\_\_\_\_

What grouping(s) of data (i.e, loan type, location, year(s), etc.) were used? MIN Pr > Chi Square Value

- (1) \_\_\_\_\_
- (2) \_\_\_\_\_
- (3) \_\_\_\_\_
- (4) \_\_\_\_\_
- (5) \_\_\_\_\_
- (6) \_\_\_\_\_

**Results from Regression Step 2**

(Fill this page out for each grouping on which step 2 was run.)

Standard Variables which were not needed for Step 2:

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Judgmental Variables which were collected for Step 2:

_____	Cash Available for Closing	_____	Special Loan Program
_____	Refi from Same Lender	_____	Cash Out vs No Cash Out
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Value of MIN Pr > Chi-Square: \_\_\_\_\_

Number of Minority Rejections: \_\_\_\_\_

Number of "Dominant Pairs": \_\_\_\_\_

Explain which files pair analysis used: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What additional factors explained away pairs? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Were pairs of loan files given to bank for explanation?            Y            N

Examiner hours spent specifically on regression: \_\_\_\_\_



	Reg. Z	FDCPA	Reg. BB	Reg. AA	Reg. E	Right to Fin. Pr.	Reg. CC	Reg. DD	Rule 78
Off-site	0	N/A	0	0	0	0	0	0	N/A
In-Bank	79	N/A	30	1	3	2	2	23	N/A
Total	79	N/A	30	1	3	2	2	23	N/A

1. Alpha numeric fields E = statutory/regulation exemption N/A = no activity noted or reviewed

**Community Contacts by Organization Type**

I \_\_\_\_\_ II \_\_\_\_\_ III 1 IV \_\_\_\_\_ V \_\_\_\_\_ VI \_\_\_\_\_ Total 1

---

State Member Bank: Name \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_

---

Loan Types

	Instal- ment <u>Loans</u>	Time and Demand <u>Loans</u>	Overdraft Checking <u>Accounts</u>	Other Open End <u>Accounts</u>	Real Estate <u>Loans</u>	Other Closed End <u>Accounts</u>
--	---------------------------------	---------------------------------------	--	--------------------------------------	--------------------------------	---

**SAMPLE REQUIREMENTS**

Number of Loans in Universe

Number of Loans Sampled Statistically

Number of Loans Sampled Judgmentally

Number of Rejected Applications Sampled

**OVERCHARGE**

Number of Actual Overcharges

Dollar Amount of Actual Overcharges

Number of Potential Overcharges

Dollar Amount of Potential Overcharges

**INSTRUCTIONS FOR COMPLETION OF VIOLATIONS PAGE(S)**

When completing violation entries:

- |  |  |
|--|--|
| 1. Make sure all ones are written as 1 and all zeros are written as 0.   | 4. Left justify all entries.   |
| 2. Use only capital letters; write the letter "eye" as I.                | 5. Record all entries vertically.  |
| 3. Use no punctuation such as commas, periods, "TOT" in Reg. or Act box. | 6. Be sure that the total for each page is entered at the bottom of the page. These totals are identified by the letters or parentheses. |

In the three examples shown below:

	Reg. or Act	Section	No. of Violations	Policy Guide
Example 1.	Z	7 A 2	3 0	
Example 2.	F D C P	8 0 5 A 1	2 9 7	
Example 3.	B	7 D 5	5	X

the following meaning will be translated by Data Processing:

1. Regulation Z	Section 7(a)(2)	30 violations
2. Fair Debt Collection Practices Act	Section 805(a)(1)	297 violations
3. Regulation B	Section 7(d)(5)	5 violations

Policy Guide Invoked

Page 3 of 4 FR 1195 (2/94)

---

State Member Bank: Name  
City State

---

**Violations**

Reg. or Act.	Section	Violations	Number of Technical	Policy Guide	File Search
--------------	---------	------------	------------------------	-----------------	----------------

**T O T** X X X X X  
Page 4 of 4

FR 1195 (2/94)