

**PUBLIC DISCLOSURE**

July 7, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Annapolis Banking and Trust Company

05240020

236 Main Street

Annapolis, Maryland 21401

**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

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 institutions 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 institutions record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of The Annapolis Banking and Trust Company, Annapolis, Maryland, prepared by The Federal Reserve Bank of Richmond, the institutions supervisory agency, as of July 7, 1997. The agency evaluates performance in the assessment area as 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 of 12 CFR Part 228.

**INSTITUTIONS CRA RATING:** This institution is rated Satisfactory.

The Annapolis Banking and Trust Company primarily serves its assessment area through direct lending. A majority of the bank's loans were originated within this area. The distribution of lending throughout the assessment area is considered reasonable, with loans originated in census tracts of all levels, including moderate-income tracts. Furthermore, loans have been extended to customers of different income levels and to businesses of varying sizes. Additionally, the institution provides a full range of products and services through various means to meet the needs of local residents. Participation in qualified community development investments, however, has been limited.

The following table indicates the performance level of The Annapolis Banking and Trust Company with respect to the lending, investment, and service tests.

<u>The Annapolis Banking and Trust Company</u>			
<b>PERFORMANCE LEVELS</b>	<b>PERFORMANCE TESTS</b>		
	<b>LENDING TEST *</b>	<b>INVESTMENT TEST</b>	<b>SERVICE TEST</b>
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
Substantial Noncompliance			

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

**DESCRIPTION OF INSTITUTION**

The Annapolis Banking and Trust Company (AB&T) is located in Annapolis, Maryland, and operates 11 branches and ten automatic teller machines (ATMs) throughout Anne Arundel County, Maryland. As of March 31, 1997, the bank's total assets were \$289 million, of which 60% were loans. The composition of the loan portfolio as of this date was as follows: 66% real estate secured (consumer and business), 19% consumer, 13% commercial, and 2% other. The institution's previous CRA rating was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The institution's assessment area encompasses a substantial portion of Anne Arundel County, Maryland, which is part of the Baltimore Metropolitan Statistical Area (MSA) and includes census tracts 7011.00 through 7070.00, 7301.01, 7302.02, and 7305.02 through 7313.07. Of the 47 census tracts, two (4%) are moderate-income, 19 (41%) are middle-income, and 26 (55%) are upper-income. There are no low-income geographies in the assessment area. Furthermore, of the two moderate-income census tracts, one contains the Crownsville mental facility in which there are no owner-occupied housing units. Based on 1996 demographic data, the percentages of owner-occupied housing by income level of census tract are as follows: 1% in moderate-income tracts, 39% in middle-income tracts, and 60% in upper-income tracts. The low percentage of owner-occupied housing in moderate-income census tracts suggest limited mortgage lending opportunities for these areas.

According to the 1990 census, the population of the assessment area is 271,298. Real estate in the local area is considered expensive with a median housing value of \$140,994 compared to median housing values of \$100,033 and \$115,502 for the MSA and state, respectively. Currently, the 1996 median family income for the Baltimore MSA is \$52,400.

The following table provides market demographics by the income level of families and the percentage of the population living in census tracts of varying income levels. As illustrated by this chart, a majority of families within the market (77%) are middle- and upper-income and 98% of the population resides in middle- and upper-income census tracts.

	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Percentage of Area Families by Income Level</b>	10%	13%	23%	54%	100%
<b>Percentage of Population in Census Tracts by Income level of Tract</b>	0%	2%	44%	54%	100%

The economy of the assessment area provides diverse employment opportunities in the Federal and State Governments, local tourism industry, light manufacturing, seafood processing, and various retail businesses. The 3.4% unemployment rate for Anne Arundel County is favorable when compared to the State of Maryland's rate of 4.4%. The strong local economy suggests a high demand for credit.

A community contact was made with an individual knowledgeable of the local area to assist in evaluating the bank's CRA performance. This individual indicated that local community development needs are currently being met by area financial institutions.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

The conclusions regarding the lending, investment, and service tests are summarized at the beginning of each section. Supporting information is then divided into performance characteristics that are described in Appendix A of the regulation.

#### **LENDING TEST**

The rating of the institution under the lending test is high satisfactory. A majority of the bank's lending was within the assessment area. The geographic distribution of loans is considered reasonable and includes lending in moderate-income tracts. The bank's lending to low- and moderate-income borrowers and businesses with revenues of \$1 million or less is reflective of market demographics. The institution has demonstrated a responsiveness to the credit needs of the assessment area through some product flexibility and community development lending.

#### Lending Activity

The bank's level of lending appears responsive to the area's loan demand. During the previous six quarters, the average loan-to-deposit ratio for institutions headquartered in the metropolitan areas of Maryland and of similar asset size to AB&T ranged from 77% to 83%. Since the previous evaluation, the bank's total loans outstanding have increased 9% while deposits have increased 2%. AB&T's average loan-to-deposit ratio for the previous six quarters is 70% and is considered reasonable given the institution's financial capacity, size, and current local economic conditions.

As identified in the CRA Public File, a full range of credit products is offered including home improvement, small business, commercial, consumer, and community development loans. The following chart depicts the bank's lending activity by number, dollar amount, and percentage. The loan activity is from January 1996 through May 1997, except for the home improvement and other Home Mortgage Disclosure Act (HMDA) loans which are for 1996. Other HMDA loans include home purchase, multifamily, and refinance loans.

	Number	Percent	Amount (000's)	Percent
Small Business*	319	12%	\$34,322	35%
Home Improvement (HMDA)*	102	4%	\$2,221	2%
Other HMDA Loans*	5	<1%	\$1,223	1%
Motor Vehicle	1,332	51%	\$40,562	42%
Consumer Secured	265	10%	\$9,316	10%
Consumer Unsecured	498	19%	\$6,060	6%
Home Equity	106	4%	\$3,386	4%
Totals	2,627	100%	\$97,090	100%

\* Information about these loans is required to be collected by the institution

As illustrated above, the majority of loan originations (84% excluding HMDA loans) was for consumer purposes. The institutions lending activity appears responsive to assessment area credit needs.

#### Assessment Area Concentration

The institution's volume of lending noted below includes consumer and small business loans originated from January 1996 through May 1997, and HMDA loans extended during 1996. The following table depicts the number and percentage of loans extended in the assessment area.

	Consumer		Small Business		HMDA		TOTAL	
	Inside	Out	Inside	Out	Inside	Out	Inside	Out
Number of Loans	1,519	682	279	40	92	15	1,890	737
Percentage of Loans	69%	31%	87%	13%	86%	14%	72%	28%
Amount of Loans (000's)	\$47,399	\$11,925	\$28,821	\$5,501	\$2,835	\$609	\$79,055	\$18,035
Percentage of Amount	80%	20%	84%	16%	82%	18%	81%	19%

As illustrated above a substantial number and amount of loans were extended to residents of the local community; this level is considered reasonable.

#### Geographic Distribution of Loans

The geographic distribution of loans is reflected in the tables below. The tables represent the institution's lending within the assessment area according to the income level of the census tract.

Distribution of Consumer Loans by Income Level of Census Tracts

	Moderate-Income	Middle- Income	Upper-Income	Total
<b>Total Number of Loans</b>	40	573	906	1,519
<b>Percentage of Total Loans</b>	3%	38%	59%	100%
<b>Total Amount of Loans (000's)</b>	\$1,440	\$24,372	\$21,587	\$47,399
<b>Percentage of Total Amount</b>	3%	51%	46%	100%

Distribution of Small Business Loans by Income Level of Census Tract

	Moderate-Income	Middle- Income	Upper-Income	Total
<b>Total Number of Loans</b>	5	122	152	279
<b>Percentage of Total Loans</b>	2%	44%	54%	100%
<b>Total Amount of Loans (000's)</b>	\$461	\$10,337	\$18,023	\$28,821
<b>Percentage of Total Amount</b>	1%	36%	63%	100%

Distribution of HMDA Loans by Income Level of Census Tract

	Moderate-Income	Middle- Income	Upper-Income	Total
<b>Total Number of Loans</b>	4	25	63	92
<b>Percentage of Total Loans</b>	4%	27%	69%	100%
<b>Total Amount of Loans (000's)</b>	\$165	\$1,005	\$1,665	\$2,835
<b>Percentage of Total Amount</b>	6%	35%	59%	100%

Overall, 2.6% (49/1,890) of the bank's loans were extended to individuals and businesses located in moderate-income census tracts. The bank's combined level of lending is proportional to the percentage of the population (2%) residing in these areas. As previously indicated, there are no low-income areas in the assessment area and of the two moderate-income census tracts, one contains the Crownsville mental facility in which there is no owner-occupied housing for the 443 individuals residing there. Because of the unique characteristics of this tract, the bank has only limited opportunities to serve this area. Given the local economic conditions and the size and location of the institution, the loan distribution is considered reasonable.

Borrower's Profile

The following tables illustrate the distribution of the bank's consumer, small business, and HMDA loans extended within the assessment area by the borrower's income level and to businesses of different sizes. Five small business loans and four HMDA loans did not rely on income or revenues in the underwriting process, and therefore, were not included in this analysis.

Distribution of Consumer Loans by Income Level of Borrower

	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Total Number of Loans</b>	217	301	382	619	1,519
<b>Percentage of Total Loans</b>	14%	20%	25%	41%	100%
<b>Total Amount of Loans (000's)</b>	\$1,612	\$2,831	\$17,786	\$25,170	\$47,399
<b>Percentage of Total Amount</b>	3%	6%	38%	53%	100%

Distribution of HMDA Loans by Income Level of Borrower

	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Total Number of Loans</b>	5	16	28	39	88
<b>Percentage of Total Loans</b>	6%	18%	32%	44%	100%
<b>Total Amount of Loans (000's)</b>	\$50	\$464	\$422	\$1,301	\$2,237
<b>Percentage of Total Amount</b>	2%	21%	19%	58%	100%

As depicted in the tables above, the percentage of consumer loans (34%) and the percentage of HMDA loans (24%) to low- and moderate-income borrowers compares favorably to the percentage of such families (23%) in the assessment area.

In the spring of 1996, the bank lowered its minimum loan amount from \$3,000 to \$1,000. As a result, the bank extended 457 loans in amounts less than \$3,000. Many of these smaller loans were extended to low- and moderate-income borrowers.

Distribution of Loans by Size of Business

	\$0 - \$100,000		\$100,001 - \$250,000		> \$250,000		Total	
Total Revenues ≤ \$1 Million	174	63%	36	13%	18	7%	228	83%
Total Revenues > \$1 Million	30	11%	10	4%	6	2%	46	17%
Total	204	74%	46	17%	24	9%	274	100%

As illustrated above, 83% (228/274) of the small business extensions in the assessment area were provided to businesses with revenues of \$1 million or less. Furthermore, 63% (174/274) of small business loans were for amounts of \$100,000 or less and to businesses with revenues of \$1 million or less. This level of lending demonstrates the bank's willingness to address the credit needs of local small businesses.

AB&T continues to provide Government guaranteed business loans to qualified applicants through the Small Business Administration (SBA). The bank currently participates in the SBA Low Doc program which features a streamlined application and approval process. Since the previous examination, three SBA loans in excess of \$140,000 were funded.

Given the product lines offered by the institution, the distribution of loans to borrowers of different income levels and to businesses of different sizes appears reasonable.

Community Development Loans

Since the previous evaluation, the bank extended a \$370,000 loan for a 12-unit apartment complex in the City of Annapolis. Fifty percent of the tenants in the complex receive Section 8 rent subsidies with the remaining units occupied by moderate-income tenants. In addition, the bank has extended other loans that directly benefit low- and moderate-income individuals and/or areas; however, these loans have been reflected in the small business and HMDA loan figures.

**INVESTMENT TEST**

The institutions level of responding to community development needs through its investment activities is rated needs to improve. Management has primarily focused its investment strategy on the purchase of United States Treasury securities which are not considered qualified investments for purposes of CRA. The bank's participation in investments responsive to community development needs has been limited to donations made to local charitable organizations. Qualified grant activity consisted of four donations totaling \$2,015 made to local housing and community service organizations.

Management is encouraged to consider other investment opportunities that have community development as the primary purpose.

## **SERVICE TEST**

The rating of the institution under the service test is high satisfactory. Delivery systems, branch locations, and the hours of operation are considered readily accessible and convenient to all portions of the assessment area. The bank's participation in community development services is considered adequate.

### Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. Ten ATMs are available to local residents and provide 24-hour nationwide network access. The ATMs are located at all branch locations, with the exception of the Main Office which is located in an historic building in downtown Annapolis. Telephone banking services are also available and provide customers with 24-hour accessibility. Additionally, a bank by mail program is offered by the institution which further enhances the bank's delivery systems.

### Branch Locations and Hours of Operation

Branch locations and business hours are tailored to the convenience and needs of the assessment area. AB&T's 11 offices are accessible to all segments of the assessment area including moderate-income census tracts. Since November 13, 1995, the date of the previous evaluation, no branches have been opened or closed. The bank has adopted a branch closing policy as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. Hours of operation are considered convenient with most branches offering services Monday through Friday 8:00 a.m. - 6:00 p.m. and Saturday hours of 9:00 a.m. - noon; specific branch hours vary.

### Community Development Services

The bank provides technical assistance to community development organizations. Specifically, a member of management serves on the finance committee of the Providence Center, an organization that provides community services to low- and moderate-income individuals. In addition, a group of bankers, including representatives from AB&T, has been working to create an organization that will facilitate low- and moderate-income housing in the state of Maryland, including Anne Arundel County. However, at this time the proposed organization is still in the planning stages. The institutions participation in community development services is considered to be adequate.

## **COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Technical violations of the Equal Credit Opportunity Act's Regulation B and the Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.