



Comptroller of the Currency
Administrator of National Banks

LARGE
BANK

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Maryland/National Capital Area Field Office
1025 Connecticut Avenue, N.W., Suite 708
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Public Disclosure

March 23, 1998

Community Reinvestment Act Performance Evaluation

**The First National Bank of St. Mary's at Leonardtown
Charter Number: 6606
5 East Park Avenue
Leonardtown, Maryland 20650**

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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 the 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 **The First National Bank of St. Mary’s at Leonardtown** prepared by the **Comptroller of the Currency**, the institution’s supervisory agency, as of **March 23, 1998**. The agency evaluates performance in the assessment area (“AA”), as delineated by the institution, rather than individual branches. This AA 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 12 C.F.R. Part 25.

Institution’s CRA Rating: This institution is rated *Satisfactory*. The factors supporting the bank’s overall rating include:

- ▶ a good responsiveness to credit needs within the AA;
- ▶ a substantial majority (92%) of small business and small farm loans made within the AA;
- ▶ a good distribution of loans to businesses of different sizes and among borrowers of different income levels;
- ▶ an adequate level of community development lending activity;
- ▶ an adequate level of investments throughout the AA;
- ▶ delivery systems that are accessible to essentially all segments of the AA with no variation in services that would inconvenience certain portions; and
- ▶ a good level of community development services provided.

The following table indicates the performance level of The First National Bank of St. Mary's with respect to the lending, investment, and service tests.

| Performance Levels | The First National Bank of St. Mary's Performance Tests | | |
|---------------------------|--|-----------------|--------------|
| | Lending Test* | Investment Test | Service Test |
| Outstanding | | | |
| High satisfactory | X | | X |
| Low satisfactory | | X | |
| Needs to improve | | | |
| Substantial noncompliance | | | |

* Note: The lending test is weighted more heavily than the investment and service tests in the overall rating.

Description of Institution

The First National Bank of St. Mary's at Leonardtown ("FNBSM"), Leonardtown, Maryland, is an affiliate of Mercantile Bankshares Corporation, a Baltimore, Maryland based holding company that had assets of \$7.2 billion as of December 31, 1997. The holding company is comprised of 22 banks in Maryland, Virginia, and Delaware.

FNBSM was chartered in 1903 and joined Mercantile in 1980. The bank currently operates one limited service and seven full service branches throughout the AA, five of which offer Automated Teller Machine ("ATM") access.

As of December 31, 1997, FNBSM assets totaled \$281 million. FNBSM offers a wide range of credit products, including various types of residential mortgage, construction, commercial, and consumer loans. Conventional residential mortgage products are offered through the holding company affiliate Mercantile Mortgage Corporation. During the current assessment period, the bank's loan-to-deposit ratio averaged 71% which was comparable to national peer banks. At year-end 1997, net loans comprised 61% of total assets. The loan portfolio is primarily real estate at 75% (48% residential and 27% commercial). Commercial and industrial loans at 11%, and consumer loans at 14%, comprise the remainder of the portfolio.

There are no financial or legal obstacles impacting the bank's ability to help meet its community's credit needs. Competition continues to be provided by larger regional and multinational banks in addition to other local institutions. Primary competitors are: Maryland Bank & Trust, N.A., Community Bank of Tri-County, NationsBank, and Cedar Point Federal Credit Union.

Description of Assessment Area (AA)

FNBSM has defined one AA which consists of all the block numbering areas (“BNAs”) located in the Maryland county of St. Mary’s. The county has no low- or moderate-income (“LMI”) BNAs. The AA does not fall within the boundaries of any Metropolitan Statistical Area. The AA meets regulatory guidelines and does not arbitrarily exclude any LMI areas. Throughout this document, LMI is used to describe low- and moderate-income individuals and/or BNAs. The following table reflects the demographics of the AA.

| ASSESSMENT AREA DEMOGRAPHICS | | | | |
|-------------------------------------|---------------|------------------------|---|---|
| <i>Designation</i> | <i># BNAs</i> | <i>% of Total BNAs</i> | <i>% of LMI Households Residing in the BNAs</i> | <i>% of Households Residing in the BNAs</i> |
| Middle | 6 | 46% | 17% | 49% |
| Upper | 7 | 54% | 11% | 51% |
| TOTAL | 13 | 100% | 28% | 100% |

The AA is populated by over 80 thousand individuals according to county data from 1996. The Department of Housing and Urban Development (“HUD”) estimates the 1998 statewide non-metropolitan median family income to be \$44,100, and the St. Mary’s County median family income to be \$53,900. The median family housing value is \$108 thousand, and the median age of the housing stock is 25 years. Total occupied housing units are 90%, with owner-occupied housing at 63% and rental-occupied housing at 27%. Vacant housing units in the AA are 8%.

Major employment is provided by the federal government, service, and retail trade firms. The St. Mary’s County unemployment rate was 4.1% as of April 1997, down from 4.7% in 1996. Growth in the civilian labor force has exceeded state and national averages. The labor force grew 7.5% between 1990 and 1996, while the population increased 6.7%. The growth is due primarily to the positive impact to the Patuxent River Naval Air Station from the nationwide base closures and realignments.

Affordable housing, including rehabilitation of older housing stock and mobile home loans, and small business loans are described as primary credit needs by bank management and community contacts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Scope of Review

This review covered the time period from January 1, 1996 to December 31, 1997 for all Home Mortgage Disclosure Act (“HMDA”)-reportable, small business, small farm, and community development loans. This examination also encompassed a review of investments purchased and services provided over the same time period.

FNBSM is exempt from the requirements of HMDA because the bank does not have an office located in an MSA. The HMDA loans reviewed were those originated in the bank’s AA by affiliate Mercantile Mortgage Corporation. Residential real estate loans attributable to the bank were taken from the bank’s Fair Housing Home Loan Data System (“FHHLDS”) Register.

LENDING TEST

Performance Criteria

Lending Activity

Overall, FNBSM’s lending performance is strong and further enhanced by mortgage products offered by the affiliate, Mercantile Mortgage Corporation. During the evaluation period, Mercantile Mortgage Corporation originated 207 HMDA- reportable loans in St. Mary’s County. This level of activity resulted in Mercantile Mortgage Corporation being one of the top ten HMDA lenders within the AA in 1996. The top ten lender information based on 1997 HMDA data is not yet available. The FNBSM originated an additional 124 residential real estate loans for \$12.3 million (1997 data collection only), 732 small business loans for \$60 million, 104 small farm loans for \$1 million, and 14 mobile home installment loans for \$104 thousand. The volume of originations demonstrates a good responsiveness to meet the credit needs of the AA.

Lending Concentration

As indicated in the next table, FNBSM demonstrates a good level of lending within the AA. On a combined basis for the evaluation period, 92% of the number of small business and small farm loans originated by the bank were within the AA. Further, a substantial majority (88%) of the dollar amount of these loans were originated within the bank’s AA. The following table details the originations for the evaluation period:

| LOAN ORIGINATIONS BY PRODUCT TYPE IN THE ASSESSMENT AREA DURING THE EVALUATION PERIOD (*) | | | | |
|--|----------------|-------------------|------------------|-------------------|
| LOAN TYPE | # LOANS | % of TOTAL | \$ (000s) | % of TOTAL |
| Small Business | 732 | 93% | 59,952 | 90% |
| Small Farm | 104 | 85% | 1,037 | 83% |
| TOTAL | 836 | 92% | 60,989 | 88% |

(*) This table reflects loans originated in the assessment area from January 1996 through December 1997.

Geographic Distribution of Loans

Loans originated during the evaluation period parallel the demographics of the AA. However, a detailed analysis is not deemed meaningful since the AA has no LMI BNAs.

Borrowers' Profile

Loans originated during the evaluation period indicate a good distribution among retail borrowers of different income levels, and business borrowers of different sizes. The tables below show the distribution of HMDA reportable loans originated by the affiliate Mercantile Mortgage Corporation, and residential, small business, and small farm loan originations by the bank.

Lending Activities

Affiliate HMDA Lending Activities

Mercantile Mortgage Corporation loan originations attributable to FNBSM are shown below:

| Borrower Characteristics of Affiliate HMDA Loans within Assessment Area | | | | | |
|--|--------------------|-------------------|--------------------|-------------------|---|
| Income Levels | 1996 | | 1997 | | % of Families within each Income Level |
| | # Loans / % | \$ Amt / % | # Loans / % | \$ Amt / % | |
| Low | 1/1% | 59/1% | 2/2% | 123/1% | 12% |
| Moderate | 9/9% | 599/4% | 14/13% | 1,187/8% | 16% |
| Middle | 30/30% | 3,493/26% | 21/20% | 2,340/16% | 21% |
| Upper | 61/60% | 9,329/69% | 69/65% | 10,840/75% | 51% |
| Total | 101/100% | 13,480/100% | 106/100% | 14,490/100% | 100% |

Loan originations to LMI borrowers are not proportionate to the LMI families in the AA. The number of loans originated in 1997 were 15% and the dollars were 9%, compared to 28% of the families at those income levels. However, this is only part of the lending activity attributable to the bank within the AA.

Bank Residential Real Estate Mortgage Lending Activities

Residential real estate loans continue to account for the majority of the bank's outstanding loan portfolio at 48%. This portfolio contains construction and permanent mortgage loans, as well as mobile home loans owned in fee simple. From the bank's 1997 FHHLDS Register, FNBSM originated 124 residential real estate loans in the AA, in excess of 90% of all loans originated. The table below shows that 20% of the number of loans were originated with LMI borrowers:

| Borrower Characteristics of Residential Real Estate Loans in Assessment Area for 1997 | | | |
|--|--------------------|-------------------|---|
| Income Levels | # Loans / % | \$ Amt / % | % of Families within each Income Level |
| Low | 5/4% | 143/1% | 12% |
| Moderate | 20/16% | 852/7% | 16% |
| Middle | 38/31% | 3,064/25% | 21% |
| Upper | 61/49% | 8,281/67% | 51% |
| Total | 124/100% | 12,340/100% | 100% |

Small Business Lending

The bank's distribution of lending to small businesses by revenue size of the business reflects a good penetration of small businesses. In 1996, 72% of all small businesses within the assessment area had revenues of less than \$1 million. For the evaluation period, 69% of the number of originations and 46% of the dollar volume was to business borrowers with revenues less than \$1 million. The table below shows the distribution of small business loan originations by revenue size within the AA:

| Distribution of Small Business Loans by Revenue Size within Assessment Area | | | | |
|--|--------------------|-------------------|--------------------|-------------------|
| Business Revenue Size | 1996 | | 1997 | |
| | # Loans / % | \$ Amt / % | # Loans / % | \$ Amt / % |
| 0 < \$1 Million | 240/70% | 11,315/45% | 265/68% | 16,498/47% |
| > \$1 Million | 105/30% | 13,829/55% | 122/32% | 18,310/53% |
| Totals | 345/100% | 25,144/100% | 387/100% | 34,808/100% |

During the calendar year 1996, FNBSM made 58% of the total number and 58% of the total dollar volume of all loans to small businesses with revenues less than \$1 million originated in the AA. As a result, FNBSM had the largest market share of loan originations in the AA for this type of loans. Comparable loan data for the AA is not yet available for 1997.

The bank's distribution of lending to small businesses by size of loan reflects a good penetration of small businesses. For the evaluation period, 95% of the number of originations were extended to business borrowers in amounts less than \$250 thousand. The table below shows the

distribution of small business loan originations by loan size within the AA:

| Distribution of Small Business Loans by Size of Loan within Assessment Area | | | | |
|--|--------------------|-------------------|--------------------|-------------------|
| Size of Loan | 1996 | | 1997 | |
| | # Loans / % | \$ Amt / % | # Loans / % | \$ Amt / % |
| <\$100 Thousand | 244/71% | 7,108/28% | 254/66% | 8,275/24% |
| \$100 Thousand to <\$250 Thousand | 87/25% | 12,951/52% | 111/29% | 16,838/48% |
| >\$250 Thousand to \$1 Million | 14/4% | 5,085/20% | 22/5% | 9,695/28% |

The bank is an active participant in the Small Business Administration (“SBA”) 7A and 504 loan programs. During the evaluation period, Mid-Atlantic Business Finance Company recognized the bank for originating the most SBA 504 loans in an area covering the State of Maryland and the Delaware counties of Kent and Sussex.

Small Farm Lending

FNBSM’s distribution of lending to small farms by revenue size reflects excellent penetration of small farms. On a combined basis for the evaluation period, 99% of the number of originations and 95% of the dollar volume was to farms with revenues less than \$1 million. All (100%) loan originations were for amounts less than \$500 thousand. The table below shows the distribution of small farm loans by revenue size within the AA, based upon the number of originations and volume, during 1996 and 1997. During the calendar year 1996, FNBSM made 52% of the total number and 45% of the total dollars of loans to small farms with revenues less than \$1 million in the AA. This resulted in FNBSM having the largest market share in the AA.

| Distribution of Small Farm Loans by Revenue Size within Assessment Area | | | | |
|--|--------------------|-------------------|--------------------|-------------------|
| Farm Revenue Size | 1996 | | 1997 | |
| | # Loans / % | \$ Amt / % | # Loans / % | \$ Amt / % |
| <\$1 Million | 45/100% | 358/100% | 58/98% | 629/93% |
| >\$1 Million | 0/0% | 0/0% | 1/2% | 50/7% |
| Totals | 45/100% | 358/100% | 59/100% | 679/100% |

Community Development Lending Activities

The Bank has originated an adequate level of community development loans. Based upon bank-generated reports and a review of bank files, FNBSM originated four loans totaling \$197 thousand that meet the definition of community development loans. These four loans also meet the definition of small business loans and are included in the preceding analysis of small business loans.

Innovative or Flexible Lending Practices

FNBSM has been flexible in its lending practices by offering mobile home installment loan products. In 1996, U.S.D.A.'s Rural Economic and Community Development Agency (formerly the Farmer's Home Administration) discontinued financing of certain mobile homes in rural areas. FNBSM management believes that this type of structure continues to provide a source of affordable housing in its AA. The bank continues to originate loans on both new and used mobile homes that are placed on leased real estate. As of December 31, 1997, FNBSM had a portfolio totaling \$230 thousand. Of that amount, 14 loans totaling \$104 thousand had been originated in the AA during the evaluation period. The mobile home loans discussed above were not included in the HMDA originations.

FNBSM has also shown flexibility by not setting a minimum borrowing amount for consumer loans. Borrowers have obtained 1030 unsecured consumer loans during the past two years, for amounts as low as \$200, at reasonable interest rates. This practice, while not innovative, is highly unusual and accommodating to borrowers, particularly LMI borrowers, in this AA. Fifty-four percent of these loans, totaling \$1.6 million, were originated to LMI borrowers.

INVESTMENT TEST

The level of qualified investments made by the bank was adequate. These investments respond to and reflect some of the credit needs of the limited opportunities in the AA. However, the lack of LMI BNAs within St. Mary's County limits the opportunity for traditional qualified investments that support community development.

The total dollar amount of qualified investments is \$37 thousand. The qualified investments are specifically geared to FNBSM's AA and were made since the previous CRA examination. The detail of the investments are as follows:

- On March 20, 1997, FNBSM opened a \$15 thousand share savings account at the St. Mary's County Federal Credit Union, a small institution with assets less than \$200 thousand. The credit union is a community development credit union with a stated mission of assisting low-income residents.
- FNBSM has committed to invest \$100 thousand in a small business loan program being developed by a consortium of banks in conjunction with the St. Mary's County Community Development Corporation. The target date for the availability of the program is July 1998.

The bank also made numerous smaller donations during the review period which totaled \$22 thousand. The donations were made to organizations that help provide economic development and/or affordable housing; as well as to organizations that provide community services to people of LMI.

SERVICE TEST

FNBSM's delivery systems are accessible to essentially all portions of the bank's AA. The record of opening or closing offices has not affected the accessibility to bank services. Branch hours are reasonable and convenient to FNBSM customers.

As reflected in the table below, the majority (75%) of FNBSM's offices are in middle-income BNAs. Since the last CRA examination, FNBSM opened a limited service branch in the Wildewood Retirement Center in California, Maryland, a middle-income BNA.

Overall, the bank's branch distribution generally reflects the geographies in the AA. The table below reflects FNBSM branch office and ATM network within the various BNAs:

| |
|---|
| <p style="text-align: center;">Distribution of Delivery Systems (Branches and Remote ATM Facilities)</p> |
|---|

| <i>BNA</i> | <i>Branches</i> | <i>ATM Facilities</i> | <i>BNAs in the Assessment Area</i> |
|---------------|-----------------|---------------------------|--|
| | <i># / %</i> | <i># / %</i> | <i># / %</i> |
| Middle | 6/75% | 3/60% | 6/46% |
| Upper | 2/25% | 2/40% | 7/54% |
| Total | 8/100% | 5/100% | 13/100% |

The bank offers Saturday and Friday evening hours at six offices. Loan departments are available at five locations. A detailed list of hours is available in the public file. The bank offers a common set of financial services to all of its customers. Credit available includes all types of mortgage, consumer, and commercial loans.

The bank maintains a website at <http://www.webgraphic.com/fnbsm/>. Information provided at the site includes: branch locations, phone numbers and hours, history of the institution, and description of services offered. FNBSM offers a “Banking Twenty-Four Telephone Access” system that provides customers with a toll-free number which they can use to obtain account information, transfer funds, place stop payments, report lost/stolen Banking Twenty-Four cards, and change telephone access PIN numbers.

Community Development Services

FNBSM provides a good level of community development services. Primary services include providing standard financial services, addressing economic factors, and providing technical financial assistance for consumers, and small businesses. The majority of these services are provided in conjunction with the Southern Maryland Tri-County Community Action Committee, Inc. (“SMTCCAC”), the St. Mary’s County Housing Authority, and the St. Mary’s County Community Development Corporation (“SMCCDC”).

The following is a listing and description of some of the community development services provided in the AA:

- FNBSM offers a service charge free savings account in conjunction with the SMTCCAC. The purpose of the account is to assist LMI individuals in attaining home ownership by providing a vehicle to save for a down payment or act as an escrow account for Farmers Home Administration mortgage holders.
- Officers and Directors from FNBSM serve on the Boards of Directors or otherwise volunteer time for a number of not-for-profit organizations. The not-for-profit organizations for which FNBSM’s staff provide services to or serve on the board of directors include, but are not limited to:

- the Bank Consortium, a planning group of the SMCCDC, developing a “loan pool” for small business loans that would be funded by the State of Maryland and investments by area financial institutions;
- the Loan Review Committee for the Hollands Forrest Landing, a thirty unit townhouse community developed by the St. Mary’s County Housing Authority to provide affordable housing to LMI families in St. Mary’s County;
- the Board of Directors of the SMCCDC;
- the Southern Maryland Private Industry Council, which administers the government funded job training partnership and the welfare to work programs;
- the St. Mary’s County Economic Development Commission;
- the Board of Directors of Cedar Lane Apartments, Leonardtown, Maryland. A HUD 202 and 236 project that is 90% occupied by LMI tenants; and
- provides legal counsel, at a nominal rate, to SMTCCAC.

FAIR LENDING EXAMINATION

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. FNBSM has an effective system in place to comply with fair lending regulations.