



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

September 19, 2016

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bay Bank, FSB  
Charter Number 718140

7151 Columbia Gateway Drive, Suite A Columbia, MD 21046

Office of the Comptroller of the Currency

400 7th Street S.W. Washington, DC 20219

**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.

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

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Outstanding.**

The following major factors support the institution's rating:

- The average loan-to-deposit ratio is more than reasonable given the Bank's size, financial condition, and assessment area credit needs.
- The Bank originated a substantial majority of home mortgage loans within its delineated assessment area.
- The distribution of borrowers reflects excellent penetration among individuals of different income levels.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area, including low-and moderate-income geographies.
- The Bank did not receive any CRA-related complaints during the evaluation period.
- The Bank provided an excellent level of community development activities given performance context factors.

## **Scope of Examination**

Bay Bank Federal Savings Bank (Bank) was evaluated under the Intermediate Small Bank examination procedures, as the Bank had assets of at least \$304 million as of December 31 of both of the previous two calendar years, and less than \$1.2 billion as of either of the prior two calendar years. These procedures evaluate the Bank's performance based upon a Lending Test and a Community Development (CD) Test. The Lending Test considers the institution's performance pursuant to the following criteria: Loan-to-Deposit (LTD) Ratio Analysis; Assessment Area (AA) Concentration; Geographic Distribution; Borrower Profile; and Response to Community Reinvestment Act (CRA) Complaints. The CD Test evaluates the Bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services. This evaluation considered the Bank's lending for the period of January 1, 2014 through December 31, 2015. The evaluation period for the community development activities is from June 4, 2013, the date of the last CRA evaluation, through September 19, 2016.

The Bank's primary loan product based on originations and purchases during the evaluation period is residential mortgages. Residential loans represent 81.18 percent of

the Bank's originations and purchases by number and 64.46 percent of the originations and purchases by dollar volume during the evaluation period. This evaluation considered the Bank's Home Mortgage Disclosure Act (HMDA)-reportable loans (home purchase, home refinance and home improvement) for the calendar years 2014 and 2015.

In order to ensure the Bank's record of originating residential mortgage loans was accurate and reliable, we analyzed loan data the Bank collected and reported in accordance with the HMDA requirements. This data integrity examination was performed during the second quarter of 2016. During that examination, we evaluated the Bank's processes to ensure the accuracy of collected HMDA data and tested a sample of the Bank's reported HMDA loans. Specifically, we tested the accuracy of HMDA loan data by comparing it against the Bank's loan file documentation. The data integrity examination revealed the Bank's publicly available HMDA loan data could be relied upon for the purposes of this CRA evaluation. We also validated CD loans, investments, and services submitted by Bank management to ensure they met the regulatory definition for community development.

## **Description of Institution**

Bay Bank was formed in June 2010 and is wholly owned by its publically traded holding company, Bay Bancorp, Inc.

Since the last CRA evaluation in June 2013, the Bank has undergone many changes. In April 2014, three branches were closed due to poor financial performance. These branches were located in moderate and middle-income geographies. In May 2014, the Bank acquired Bel Air, Maryland based Slavie Federal Savings Bank (Slavie) from the FDIC and assumed two branch office locations through this acquisition. In October 2014, one of those locations was closed due to its proximity to one of the existing branch locations. In April 2015, the Bank moved its headquarters from Lutherville, Maryland to Columbia, Maryland. In July 2016, the Arbutus, Maryland branch was relocated within the same low-income census tract. Effective July 8, 2016, the Bank completed a merger with Hopkins Federal Savings Bank (Hopkins), Baltimore, Maryland. Through the Hopkins merger, Bay acquired two additional branch locations. One of the acquired branches was closed due its close proximity to an existing Bay branch. Hopkins activities are not considered since the merger occurred after the evaluation period.

As of the evaluation date, the Bank operates a network of 12 branch offices and 11 automated teller machines (ATMs). Of the branch offices, one office is in a low-income census tract; three offices are in moderate-income census tracts; five offices are in middle-income census tracts; and three offices are in upper-income census tracts. The Bank also operates one loan production office located in Baltimore County, Maryland.

Bay Bank is a growing thrift offering the standard range of retail and commercial banking services. Its personal banking services include checking accounts, savings programs, and money market accounts. The Bank offers residential loans, home equity lines of credit, construction loans, automobile loans as well as commercial real estate loans and

commercial loans. Terms for the commercial real estate loans are generally five years but may be granted up to 10 years. Commercial loan terms are offered for one year for a working capital line of credit, up to seven years for an equipment loan. Home equity loan terms may be up to 20 years, while residential purchases, refinancings and HELOCs are available up to 30-year terms. Each loan type has fixed and adjustable interest rate options. Other alternative delivery systems include telephone banking, internet banking, and remote deposit capture for business customers. The Bank also offers safe deposit boxes, free mobile banking, and mobile deposit through several smartphone platforms. Passbook savings accounts are a new product acquired as part of the Hopkins' acquisition. In addition, Bay has entered into a referral partnership with RapidAdvance to offer business-financing alternatives to entrepreneurs and small business customers.

The Bank's assets have increased from \$129.9 million to \$495.5 million since March 30, 2013, the date of the financial data used for the previous CRA evaluation. The significant increase in the Bank's asset size is largely attributable to the April 2013 merger with Carrollton Bank. As of June 30, 2016, BBFSB reported total loans of \$422.6 million, total deposits of \$363.2 million, and Tier One Capital of \$66.2 million. Total loans represented approximately 85.3 percent of total assets. A summary of the loan portfolio is reflected in the table below:

<b>Table -1 Loan Portfolio Composition as of June 30, 2016</b>		
<b>Loan Category</b>	<b>Balance (\$000)</b>	<b>% of Total Loans</b>
Real Estate Loans	374,192	88.56
Commercial Loans	47,180	11.17
Individual Loans	1,175	0.28
Other Loans & Leases	5	0.00
<b>Total</b>	<b>422,552</b>	<b>100.00*</b>

*Source: June 30, 2016 UBPR; \*Figures do not total to 100 percent due to rounding*

There are no financial or legal impediments to hinder the Bank's ability to help meet the credit needs of the communities it services. The Bank received a "Satisfactory" rating under the "Small Bank" rating criteria at the previous CRA evaluation, dated June 4, 2013.

## **Description of Assessment Area**

The Bank's AA has changed from the previous CRA evaluation due to the branch that closed in Salisbury, Maryland. With the closing of this branch in April 2014, management no longer identifies this geographic area as an assessment area.

The Bank has one AA located within the Baltimore-Towson, Maryland (MD) Metropolitan Statistical Area (MSA) 12580. The AA includes the counties of Anne Arundel, Baltimore, Carroll, Harford, Howard, Queen Anne's and Baltimore City. The AA consists of

contiguous geographies, and low and moderate-income areas are not arbitrarily excluded.

The table below, which is based on 2010 U. S. Census Data, sets forth certain demographic characteristics of Bay Federal’s assessment area:

<b>Table 2 - Demographic Information for Full Scope Area: Bay Bank MSA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	681	14.68	21.59	33.33	28.93	1.47
Population by Geography	2,710,489	10.61	20.58	35.55	32.75	0.51
Owner-Occupied Housing by Geography	692,428	5.64	16.61	38.98	38.76	0.01
Business by Geography	190,508	6.91	14.04	37.52	41.32	0.21
Farms by Geography	4,348	1.86	6.90	41.38	49.86	0.00
Family Distribution by Income Level	665,999	21.42	17.32	20.96	40.31	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	257,969	18.98	29.49	33.76	17.76	0.00
Median Family Income		81,788	Median Housing Value		296,066	
FFIEC Adjusted Median Family Income for 2015		89,600	Unemployment Rate (2010 US Census)		4.6%	
Households Below Poverty Level		9.33%				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2010 US Census and 2015 FFIEC updated MFI

As the data in Table 2 shows, the Bank’s assessment area consists of 681 census tracts, of which there are 100 low-income census tracts, 147 moderate-income census tracts, 227 middle-income census tracts, 197 upper-income census tracts, and 10 have not been assigned an income classification.

The 2010 U.S. Census reported the total population of the AA at 2,710,489. Within the AA, there are 1,018,225 households and 665,999 families. There are 1,122,992 housing units, of which, 61.66 percent are owner-occupied, 29.01 percent are rental-occupied, and 9.33 percent are vacant housing units. Approximately 5.64 percent of owner-occupied housing is located in low-income geographies, 16.61 percent in moderate-income geographies, 38.98 percent in middle-income geographies, and 38.76 percent in upper-income geographies. The median housing cost is \$ 296,066.

The 2010 median income for this AA was \$86,982, and the 2015 HUD updated median family income is \$ 89,600. Approximately 21.42 percent of families are low-income, 17.32 percent are moderate-income, 20.96 percent are middle-income, and 40.31 percent are upper-income. Additionally, 25.47 percent of households received social security, 19.70 percent were retired, and 9.33 percent of households were below the poverty level.

According to the Bureau of Labor Statistics, the June 30, 2016 unemployment rate for the Baltimore-Columbia-Towson MD MSA was 4.6 percent. As of the same date, the unemployment rate for state of Maryland was 4.3 percent and the national unemployment rate was 4.9 percent.

Competition for mortgage loans is strong and includes local commercial and savings banks and branches of larger regional and nationwide banks. Based upon the most recent 2014 Peer Mortgage Data, there were 576 lending institutions within Bay's AA competing for mortgage applications. Bay ranks 49 with a market share of 0.50 percent. The top five lenders are: Wells Fargo Bank, NA, JP Morgan Chase Bank, NA, Quicken Loans, Branch Banking and Trust Company, and First Home Mortgage.

Based on the June 30, 2016 FDIC Summary of Deposit Market Share report, Bay's deposit market share within the Baltimore-Columbia-Towson MD MSA was 0.52 percent, ranking Bay 18 out of 57 institutions in the MSA. The Bank's primary competitors are: Bank of America, NA (81 offices, 27.07 percent market share), Manufacturers and Traders Trust Company (99 offices, 22.07 percent market share), PNC Bank (98 offices, 10.50 percent market share), Wells Fargo Bank, NA (60 offices, 9.98 percent market share), and Branch Banking and Trust Company (78 offices, 8.02 percent market share).

According to Moody's Analytics, strengths for the area include it being a hub for growing cybersecurity providers, its established and well-funded medical research centers, and strong transportation and distribution industries. The weaknesses for the area are declining old-line manufacturing, above average living and business costs, few transportation links to Washington DC, and below average population growth.

There are ample opportunities available for banks to address CD and credit needs in the area. The area is served by several CDFIs, CD entities, and nonprofit entities. During this evaluation, OCC representatives met with various CD organizations that support economic development, small business development, and affordable housing and community services targeted toward LMI individuals and families. Through our contacts with these organizations, some of the most critical community needs include:

- funding for CDFIs;
- workforce readiness and development programs;
- funding to help demolish vacant and abandoned properties;
- financial education for debt management and small businesses;
- homeownership counseling.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

BBFSB's performance under the Lending Test is rated **Outstanding**.

The Bank’s loan-to-deposit ratio is more than reasonable and a substantial majority of the Bank’s primary loan products are within its AA. The distribution of mortgage loans among borrowers of different income levels reflects excellent penetration. The geographic distribution of mortgage loans reflects excellent dispersion throughout the AA.

**Loan-to-Deposit Ratio**

The Bank’s quarterly average net loan-to-deposit ratio is more than reasonable given the Bank’s size, financial condition, and the credit needs of the AA. The Bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance. The Bank’s quarterly average net loan-to-deposit ratio over the ten quarters since the last CRA evaluation was 96.67 percent. The ratio ranged from a quarterly low of 84.94 percent to a quarterly high of 104.34 percent during that time period. The quarterly average net loan-to deposit ratio for a custom peer group of six similarly sized and situated banks was 79.56 percent over the same period. The custom peer group’s ratio ranged from a quarterly low of 64.44 percent to a quarterly high of 92.86 percent during that time period. Bay’s average LTD ratio exceeds the peer average and reflects a strong level of lending.

**Lending in Assessment Area**

The Bank’s lending in its AA exceeds the standards for satisfactory performance. A substantial majority of loans by both number and dollar volume were made within the Bank’s AA. During the evaluation period, 87.11 percent of the number and 86.36 percent of the dollar amount of total home mortgage loans were originated or purchased within the Bank’s assessment area AA.

The following table details the Bank's lending within the AA by number and dollar amount of loans:

<b>Table 3 - Distribution of Loans Inside and Outside of Assessment Area</b>										
Loan Category of Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total #	Inside		Outside		Total \$(000s)
	#	%	#	%		\$(000s)	%	\$(000s)	%	
HMDA Reportable	804	87.11	119	12.89	923	198,168	86.36	31,303	13.64	229,471

Source: HMDA LAR Data (2014 and 2015)

**Lending to Borrowers of Different Incomes**

The Bank’s percentage of mortgage loans granted to low-income borrowers was somewhat below the percentage of low-income families residing within the AA, but it exceeded the level of lending to low-income borrowers by other HMDA-reporting lenders. However, 9.33 percent of families within the assessment area have incomes below the

poverty level and may find it difficult to qualify for a home loan. When this statistic is considered, the Bank's record of lending to low-income borrowers appears more in line with demographics. The percentage of the Bank's mortgage lending to moderate-income borrowers was substantially higher than both assessment area demographics and the average of all HMDA-reporting lenders. Overall, combined lending to LMI persons represented 43.26 percent of assessment area lending, which exceeded the demographic benchmark of 38.74 percent and substantially exceeded the peer benchmark of 28.51 percent. Based on the foregoing, the examiner concluded that Bay's performance with respect to this criterion exceeds the standards for satisfactory performance.

The table below shows the distribution of HMDA loans in the AA among borrowers of different income levels for the period of January 1, 2014 through December 31, 2015 as compared to the percentage of families in each income category as well as the aggregate peer performance in 2014, the most recent year for which data is available:

<b>Table 4 - Distribution of HMDA-Reportable Loans By Borrower Income Level</b>					<b>Demographic Benchmarks</b>	<b>Peer Lending Benchmark</b>
<b>Income Level of Borrower</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Dollar (000)</b>	<b>\$ Percent</b>	<b>Percent Families</b>	<b>2014 Aggr. HMDA</b>
Low = <50%	122	15.66	14,545	7.70	21.42	9.49
Moderate = 50-79%	215	27.60	37,315	19.75	17.32	19.02
Middle = 80-119%	196	25.16	47,712	25.25	20.96	23.33
Upper = > 120%	246	31.58	89,365	47.30	40.31	48.16
Total	779*	100.00	188,937	100.00	100.00	100.00

Source: HMDA – reported data report 01/01/14 – 12/31/15; 2010 U.S. Census data.

\*Excludes 25 loans for which borrower income was not available.

## Geographic Distribution of Loans

The Bank's mortgage lending in low-income census tracts was slightly below the percentage of owner-occupied housing units in the AA, but it exceeded the percentage of lending by other HMDA-reporting lenders. The percentage of mortgage lending in moderate-income geographies reflects excellent dispersion, and exceeded both the percentage of owner-occupied housing units in the respective census tracts as well as the peer lending benchmark. Overall, mortgage lending within LMI census tracts represented 25.99 percent of assessment area lending, which is significantly better than the average for all HMDA-reporting lenders of 15.88 and compares very well with the demographic benchmark of 22.25 percent. Accordingly, the Bank's record of geographic distribution of lending exceeds the standards for satisfactory performance. There were no conspicuous gaps identified within the Bank's AA.

The table below illustrates loan originations, categorized by geography income level that were reported by the Bank during the review period, and compares this activity to the



2014 aggregate lenders. The table also includes a comparison to the percentages of owner-occupied housing units (O.O.H.U.) within the assessment area:

Table 5- Distribution of HMDA-Reportable Loans By Census Tract Income					Demographic Benchmarks	Peer Lending Benchmark
Income Level of Census Tract	Number	No. Pct.	Dollar (000)	\$ Percent	Percent O.O.H.U.	2014 Aggr. HMDA
Low = <50%	33	4.10	4,708	2.38	5.64	3.69
Moderate = 50-79%	176	21.89	27,437	13.85	16.61	12.19
Middle = 80-119%	345	42.91	81,858	41.31	38.98	38.89
Upper = > 120%	250	31.09	84,165	42.47	38.76	45.73
Total	804	100.00	198,168	100.00	100.00	100.00

Source: HMDA – reported data report 01/01/14 – 12/31/15; 2010 U.S. Census data.

### Responses to Complaints

The Bank has not received any complaints about its performance in helping to meet the community credit needs since the last CRA evaluation.

### COMMUNITY DEVELOPMENT TEST

According to the definition found in 12 CFR 25, community development means:

- 1) Affordable housing for low- or moderate-income individuals;
- 2) Community services targeted to low- or moderate-income individuals;
- 3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or
- 4) Activities that revitalize or stabilize:
  - \_ low- or moderate-income geographies;
  - \_ designated disaster areas; or
  - \_ distressed or underserved non-metropolitan middle-income geographies.

This is the first performance evaluation under the Intermediate Small Bank examination procedures. Prior to this time period, the Bank was operating under the “Small Bank” performance criteria, which included a Lending component with optional community development activity.

The Bank’s performance under the Community Development Test is rated **Outstanding**. The Bank’s community development performance demonstrates excellent responsiveness to community development needs in its AA through community development loans, investments, and services.

More detail on the level of activity within each of the three components of the Community Development Test is provided below, along with the regulatory definition of community development.

### **Number and Amount of Community Development Loans**

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or residential mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

The Bank's CD lending reflects excellent responsiveness to CD needs within its AA. During the evaluation period, the Bank extended 33 qualified community development loans totaling approximately \$14,074,937. The vast majority of the loans focused on projects for the creation or renovation of affordable housing and community services for low- and moderate-income individuals and families.

### **Number and Amount of Qualified Investments**

The Investment Test evaluates the bank's record of meeting the assessment area's credit and economic development needs through its qualified investments. A qualified investment for the purpose of this CRA evaluation is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose.

The Bank's level of qualified investments and donations demonstrate excellent responsiveness to the CD needs in the AA.

As of the date of the evaluation, the Bank held two Fannie Mae mortgage pool of real estate loans for low-and-moderate income borrowers, with a current market value of approximately \$1,679,058. The original underlying mortgages provided funding for fourteen low- and moderate-income borrowers in the AA.

In addition to these investments, the Bank made 48 qualified donations during the evaluation period totaling \$87,165. These donations were to local schools and non-profit organizations that provide social services, including affordable housing, youth programs, homeless centers, and scholarship programs that support low- and moderate-income individuals.

Organizations receiving contributions include:

- Home Builders Care Foundation
- Home Builders Association
- Catholic Charities-Blaise Cook
- Catholic Charities-Ryder Cup
- Y of Central Maryland

- MD Volunteer Lawyers
- Harford Family House-"Home Runs for the Homeless"
- Santa Claus Anonymous
- March of Dimes
- Hearts and Homes for Youth
- Theological College
- Welcome One Emergency Shelter
- Teachers for Tomorrow-HCPSS
- Big Brothers Big Sisters
- Good Shepard Services
- The Children's Guild
- Archdiocese of Baltimore
- Relay for Life (ACS)
- HARBEL Community Organization
- Maryland Association of Nonpublic Special Education Facilities
- CCBC-Community College of Baltimore County
- St. John's Lutheran Church of Parkville
- Howard Community College Education Foundation
- RAACE (Race Against Abuse of Children Everywhere)
- Salisbury University Foundation

### **Extent to Which the Bank Provides Community Development Services**

This section of the Community Development Test evaluates the institution's record of providing community development services, including the provision and availability of services to low- and moderate-income people. A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical assistance.

During the review period, Bank employees provided 563 service hours in various capacities for community development organizations, by participating in eleven different community development services. The community development services offered focused on education, affordable housing and other community services that aided low- and moderate-income geographies and low- and moderate-income individuals.

The following is a partial list of organizations that the Bank supported during the evaluation period:

- Baltimore Community Lending
- YMCA of Central Maryland
- Community Crisis Center
- My Sister's Place
- Southwest Emergency Services (SWES)
- Family and Children's Services of Central Maryland

### **Responsiveness to Community Development Needs**

The Bank's CD activities, as a whole, demonstrate excellent responsiveness to the needs and opportunities in the AA. A significant portion of the CD lending focused on providing affordable housing for low- and moderate-income individuals. The Bank made multiple donations to organizations whose goal it is to provide needed housing and social services to low- and moderate-income individuals and families. Further, the Bank employees provided reasonable level of community services to organizations offering services to low- and moderate-income individuals.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

There was no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs of the Bank's assessment area.