



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 19, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Maryland Bank and Trust Company, N.A.
Charter Number 23430**

**3200 Old Washington Road
Waldorf, Maryland 20602**

**Comptroller of the Currency
Washington/Maryland Field Office
250 E Street SW, Mailstop 3-5
Washington, D.C. 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 CRA RATING: This institution is rated “**Outstanding.**” The factors supporting the bank’s overall rating include:

- The loan deposit ratio is reasonable, averaging 71% for the evaluation period compared to 73% for similarly situated banks within the bank’s assessment area.
- A substantial majority of loans are within the bank’s assessment area. Over 90% of the number and nearly 90% of the dollar amount of loans originated during the evaluation period were made within the assessment area.
- MBT’s responsiveness to the credit needs in its assessment area has been excellent. The bank made 3,689 loans totaling over \$182 million in the assessment area between 1999 and 2002. During this period, HMDA loans totaled 727 for \$54.8 million. Loans made to small businesses with revenues less than \$1 million during 2001 and 2002 totaled 234 loans for \$30 million, and the number of consumer loans in 2002 was 512 totaling over \$16 million.
- Loan distribution among individuals of different income levels in the assessment area is excellent. MBT made 43% of the number of residential real estate loans and 59% of the number of consumer loans to low- and moderate-income borrowers versus 33% of families with those same income characteristics in the assessment area. Lending to small businesses is strong. Businesses reporting revenues of \$1 million or less are 73% of businesses in the assessment area. Loans to businesses with revenues less than \$1 million was 74% of the number of loans and 53% of dollar amount of commercial loans made in 2001 and 2002.
- Geographic distribution of loans in the assessment area is excellent. MBT’s record of meeting the opportunities that are available is very good. The bank made 13% of its HMDA reportable loans in moderate census tracts during the evaluation period. Moderate-income tracts represent 14% of the assessment area. This comparison is particularly favorable given the level of owner occupied housing at 10% in those moderate tracts. Nearly 5% of commercial loans originated in 2001- 2002 were made in moderate-income census tracts. This percentage is considered reasonable given the limited lending opportunities and considerable competition in this rural and scarcely populated segment of the assessment area.

DESCRIPTION OF INSTITUTION

Maryland Bank and Trust Company, N.A. (MBT) is a full service bank established in 1959. MBT is 100% owned by Maryland Bankcorp, Inc., a single bank holding company, and has one wholly owned subsidiary, MB&T Financial Services, Inc., formed in 2002. The previous CRA performance evaluation was completed as of September 30, 1998, and a rating of "Satisfactory" was assigned.

MBT's main office is located in Lexington Park, Maryland, in St. Mary's County; executive offices and the operations center are located in Waldorf, Maryland, Charles County; and eleven full service branches operate in Prince Georges, Calvert, Charles, and St. Mary's County. To better serve its community, MBT opened four branches since the last performance evaluation in 1998. The bank also maintains 24 hour ATMs at 9 of the 11 branches and five remote cash dispensing ATMs within the assessment area. The La Plata, Maryland branch was destroyed by a tornado April 2002. The bank has been operating from a modular office since that time with a newly constructed branch expected to be completed by the fall of 2004. MBT continues to seek opportunities to open additional branch sites throughout the assessment area.

As of December 31, 2002, total assets were \$281 million with gross loans of \$153 million and deposits of \$266 million. Lending activity remains centered in real estate secured loans, (i.e., commercial real estate and residential real estate loans). The following is a breakdown of MBT's loan products and percentages of the total loan portfolio:

<u>Loans Secured by Real Estate:</u>		<u>Non-Real Estate Loans:</u>	
Construction and Land Development	6%	Business	20%
1-4 Family Residential	39%	Consumer	5%
Non-Farm, Non-Residential	30%		

MBT reported net income of \$1.4 million, a net interest margin (NIM) of 4.27%, and a return on average assets (ROAA) of .54%. The bank's NIM and ROAA have declined slightly during the review period. We compared the bank's performance to similarly situated banks, which includes insured commercial banks within MBT's assessment area with assets between \$89 and \$409 million that operate three or more banking offices. Amidst strong competition from its peers and other non-bank lending entities in the assessment area, MBT has been consistently profitable and has adequate resources to meet the credit needs within its community. Additionally, there are no economic or legal impediments inhibiting the bank's ability to identify and satisfy community credit needs.

DESCRIPTION OF ASSESSMENT AREA

MBT's assessment area remained unchanged since the previous OCC performance evaluation and consists of Charles, Calvert, St. Mary's, and lower Prince Georges County (Southern Maryland). With the exception of St. Mary's County, the majority of the assessment area is within the Washington, DC-MD-VA-WV Metropolitan Statistical Area (MSA) 8840. The assessment area is divided into 51 census tracts based on 1990 US Bureau of Census information. The assessment area complies with the legal requirements of CRA and does not arbitrarily exclude low-to-moderate geographies. According to the 1990 census the total

population in the bank’s MSA and non-MSA assessment area is 262,459 individuals.

The following table reflects the breakdown of census tract characteristics within the bank’s assessment area based on 1990 Census Bureau information. As shown, in 1990 14% of the census tracts in the assessment area were considered moderate-income areas and there were no low-income census tracts. There is one undefined census tract with zero population in the bank’s assessment area. MBT’s seven moderate census tracts are scarcely populated, mostly rural, and located in low-lying areas on the Potomac and Patuxent rivers. As such, lending opportunities are very limited in the moderate census tracts.

Designation	# Census Tracts	% Of Total Tracts
Low Income	0	0%
Moderate Income	7	14%
Middle Income	32	63%
Upper Income	11	22%
Not Applicable	1	2%
Total	51	100%

The local economy remains strong. Southern Maryland, which is the bank’s assessment area, has experienced significant population and business growth since the last evaluation. Military base expansion along with the affordability of housing and close proximity to Washington, DC, has led to substantial residential and commercial development. The median family income in 2002, according updated 1990 US Census, was \$82,145 in the bank’s assessment area. The federal government remains the largest employer in the bank’s assessment area, including the Naval Surface Warfare Center at Indian Head in Charles County and Patuxent Naval Air Station in St. Mary’s County. Other large employers include Civista, Calvert, and St. Mary’s hospitals, Besche and Southern Maryland Oil companies, College of Southern Maryland, and Southern Maryland Electric Cooperative.

One community contact was performed in conjunction with this CRA evaluation. The contact offered that the community banks are meeting the credit needs of the community. The individual interviewed specifically noted that Maryland Bank & Trust has provided financing as well as support for the organization. There are opportunities within the assessment area for financial institutions to provide affordable credit for housing, interim and gap financing for community development organizations, and development of affordable housing projects. Within the bank’s assessment area there are two Enterprise Zones – in Waldorf, Charles County, and Lexington Park, St. Mary’s County. Enterprise Zones are designated areas for revitalizing existing

businesses and providing incentives to attract new business into distressed areas. These zones create economic opportunities that lead to jobs for all residents and provide the foundation on which residents can become economically self-sufficient. Within the zones, there are opportunities to lend for property renovations, working capital, inventory financing, and for the purchase, start up or expansion of small businesses. Competition for those opportunities from other local financial institutions as well as non-bank companies, such as American Express, is heavy because Southern Maryland has so few moderate-income census tracts providing opportunities to meet CRA requirements.

LOAN TO DEPOSIT RATIO

MBT’s loan to deposit ratio is reasonable and commensurate with its size and financial condition as well as competition in the assessment area. Over the 16 quarters from 1999 to 2002, the loan to deposit ratio averaged 71% compared to similarly situated banks within the bank’s assessment area averaging 73% and national peer 77% for the same period. The bank’s loan-to-deposit ratio reflects the strong competition among the similarly situated banks in the bank’s assessment area.

LENDING IN ASSESSMENT AREA

A vast majority of the bank’s lending activity is within its assessment area during the evaluation period as shown in table below. Consistently the bank has originated over ninety percent of the number of loans and nearly ninety percent of the dollar volume of loans within the assessment area.

LENDING IN THE ASSESSMENT AREA

Year	# Of Loans In Assessment Area	% In Assessment Area	\$ Amount of Loans	% In Assessment Area
1999	1,275	95%	\$ 50,317	90%
2000	879	96%	\$ 39,023	90%
2001	818	94%	\$ 43,738	88%
2002	717	93%	\$ 49,577	89%
Total	3689	95%	\$182,655	89%

LENDING TO BORROWERS OF DIFFERENT INCOME AND BUSINESSES OF DIFFERENT SIZES

MBT’s distribution of loans, given the bank’s assessment area demographics, reflects excellent penetration among borrowers of different incomes, especially to low-to-moderate families. The table below is based on the bank’s data, which we tested and found reliable. Although, not required, MBT is capturing income characteristics of consumer borrowers. The consumer table below reflects 2002 data only. As shown in the tables, the bank exceeds the benchmark for family income characteristics for the number of loans within the bank’s census tracts. By comparison, MBT made 43% of the number of residential real estate loans and 59% of the number of consumer loans to low-to-moderate borrowers versus 33% of families with those

same income characteristics in the assessment area.

LENDING TO RESIDENTIAL BORROWERS OF DIFFERENT INCOMES (1999-2002)

Income Designation	# Of Loans	% Of Total	\$(000)	% Of Total	Family Income Characteristics
Low	144	20%	\$ 3,321	6%	14%
Moderate	168	23%	\$ 7,143	13%	19%
Middle	190	26%	\$11,243	21%	27%
Upper	225	31%	\$33,134	60%	40%
Total	727	100%	\$54,841	100%	100%

LENDING TO CONSUMER BORROWERS OF DIFFERENT INCOMES (2002)

Income Designation	# Of Loans	% Of Total	\$(000)	% Of Total	Family Income Characteristics
Low	180	35%	\$ 1,107	7%	14%
Moderate	121	24%	\$ 1,798	11%	19%
Middle	92	18%	\$ 3,486	21%	27%
Upper	119	23%	\$10,017	61%	40%
Total	512	100%	\$16,408	100%	100%

MBT's record of lending to businesses of different sizes, as shown in the table below, is more than reasonable. The bank provided the business loan data below that covers the evaluation period. Of the 318 business loans originated in 2001 and 2002, 234 or 74% were to small businesses with revenues under \$1 million, which is just over the 70% of the businesses reporting income and located within the MBT's assessment area that have annual revenues under \$1 million (1990 US Census).

LENDING TO BUSINESSES OF DIFFERENT SIZES

Business Revenue Size	# Of Loans	% Of Total	\$(000s)	% Of Total
<= \$1 million	234	74%	\$29,752	53%
>= \$1 Million	84	26%	\$25,952	47%
Total	318	100%	\$55,704	100%

COMMUNITY DEVELOPMENT LENDING

The bank actively pursues Small Business Administration guaranteed loans programs and participates in community development programs to provide financing to small businesses that may not qualify otherwise. During the evaluation period, MBT made 19 loans ranging in size from \$9,000 to \$815,000 totaling over \$2 million to small businesses with revenues less than \$1 million located in the Lexington Park Enterprise Zone. These loans, while in middle-income census tracts, helped to provide community revitalization to the Lexington Park business district with loans to start and expand small businesses. The bank also issued a \$440,375 letter of credit in place of a surety bond for a housing project designated for low-income persons in the

Lexington Park Enterprise Zone. The Waldorf Enterprise Zone, located in a moderate-income census tract, is inactive but is there to provide incentives for new businesses and assistance to existing small businesses within the zone. Waldorf's business district is economically sound and has experienced significant economic growth in recent years. The face of Waldorf's business district is changing from the locally owned small business to the more prominent national brand businesses. It is just a matter of time before Waldorf's zone is revitalized.

GEOGRAPHIC DISTRIBUTION OF LOANS

MBT's geographic distribution of loans originated reflects excellent dispersion throughout their assessment area, especially in the moderate tracts. Moderate census tracts, within the bank's assessment area represent 14% of MBT's assessment area but offer limited lending opportunities having only 10% of the housing in these tracts being owner occupied. MBT's HMDA reportable loans made in moderate census tracts during the evaluation period represented 13% of those loans.

Residential Real Estate Distribution of Loans in MBT's AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% Census Tracts	% Of Number of Loans	% Census Tracts	% Of Number of Loans	% Census Tracts	% Of Number of Loans	% Census Tracts	% Of Number of Loans
Residential	0	0	14%	13%	63%	67%	22%	20%

(One census tract within the assessment area has no designation and represents 2%)

The 1990 Census reports that 16,955 businesses are located within the bank's assessment area. Of those businesses reporting income in the assessment area, 73% have revenues less than \$1 million. During the evaluation period, MBT made nearly 5% of the number of small business loans in its assessment area's moderate-income census tracts. This reflects reasonable distribution within moderate-income census tracts that represent 14% of the bank's assessment area. Lending opportunities within these tracts are very limited. As stated above, moderate-income census tracts within the bank's assessment area are mostly rural and scarcely populated. Businesses located in those areas are generally seasonal due to their close proximity to the Potomac and Patuxent rivers. Further, competition for lending opportunities is strong.

Geographic Distribution of Loans to Businesses/Farms in MBT's AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% Census Tracts	% of Number of Loans	% Census Tracts	% of Number of Loans	% Census Tracts	% of Number of Loans	% Census Tracts	% of Number of Loans
Small Business/Farm	0	0	14%	5%	63%	75%	22%	20%

RESPONSES TO COMPLAINTS

MBT did not receive any complaints during this evaluation period regarding its performance under the CRA regulation or efforts to meet credit needs in its assessment area.

FAIR LENDING REVIEW

We found no evidence of illegal discrimination or other illegal credit practices. We reviewed MBT's HMDA data and found no violations of the substantive provisions of the anti-discrimination laws and regulations. As a result, it was determined that a comprehensive Fair Lending examination was not needed in connection with this CRA evaluation.