



## **PUBLIC DISCLOSURE**

March 18, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The National Bank of Cambridge  
Charter Number 2498

304 High Street  
Cambridge, MD 21613

Office of the Comptroller of the Currency

400 7th Street S.W.  
Washington, DC 20291

**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 Satisfactory**

The major factors supporting this rating include:

- The bank's average loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance;
- A substantial majority of the bank's loans were originated in the bank's assessment area;
- The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes given the demographics of the assessment area.
- Geographic distribution of loans reflects reasonable dispersion throughout the AA.

**SCOPE OF EXAMINATION**

We performed a full-scope evaluation of The National Bank of Cambridge's (NBC) assessment area using Small Bank Community Reinvestment Act procedures. The Small Bank examination assesses the bank's performance under the lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area through its lending activities. The evaluation period for the lending test is January 1, 2012 through December 31, 2013, as this is representative of the bank's lending strategy since the last Community Reinvestment Act (CRA) examination. Based upon the bank's business strategy and the loan balances outstanding at December 31, 2013, we determined the bank's primary loan product was small business lending. Therefore, conclusions regarding the bank's lending performance are based on small business lending. To perform the lending test, we utilized a lending report generated by the bank to select a random sample of twenty small business loans that were originated or purchased during the evaluation period.

**DESCRIPTION OF INSTITUTION**

Established in 1880, NBC is an intrastate community bank headquartered in Cambridge, Maryland. NBC is a wholly owned subsidiary of Delmarva Bancshares Inc., a one-bank holding company headquartered in Cambridge, Maryland. NBC owns 20% of Delmarva Bank Data Processing Center. The bank and its holding company do not have any operating subsidiaries.

As of December 31, 2013, NBC operates three full service branches in Dorchester County. All three branches have Automated Teller Machines (ATMs), and offer drive-through services. All branches offer extended Friday and Saturday hours. Since their last evaluation, NBC has not opened or closed any branches. There were no mergers or acquisitions during the evaluation period.

NBC is a full service community bank offering a broad range of retail banking and commercial banking. Its retail services include checking accounts, savings programs, money-market accounts, consumer loan programs, and residential mortgages. The bank’s commercial services include business deposit accounts, revolving lines of credit, and commercial mortgages. NBC also offers online access to customer accounts through their website.

As of December 31, 2013, NBC had total assets of \$190.4 million. As of the same date, NBC had net loans of \$106.5 million, total deposits of \$165.9 million and Tier One Capital of \$20.8 million.

Competition in the bank’s assessment area is strong and includes local community banks and branches of larger regional and national institutions. NBC’s primary competitors in the assessment area are The Talbot Bank of Easton Maryland, Provident State Bank, Inc., PNC Bank, NA, Bank of America, NA, and BB&T.

During the evaluation period, NBC was under a supervisory enforcement agreement with the Comptroller of the Currency, which limited the Bank’s lending activity due to higher capital requirements.

NBC’s last Public Evaluation (PE) was dated April 21, 2008, and NBC was assigned an overall “Satisfactory” rating.

**DESCRIPTION OF ASSESSMENT AREA(S)**

NBC has designated its assessment area (AA) to include all of Dorchester County, all of Caroline County, and six census tracts (CT) in the eastern half of Talbot County. This AA is located on Maryland’s Eastern Shore in a non-metropolitan statistical area (MSA). The AA complies with the legal requirements of CRA and does not arbitrarily exclude low- and moderate- income areas.

NBC’s AA is described below.

Demographic Information for NBC’s AA – Non MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	25	4.00%	20.00%	68.00%	8.00%
Population by Geography	96,123	4.16%	19.80%	69.57%	6.46%
Owner-Occupied Housing by Geography	27,686	1.87%	17.22%	73.07%	7.83%

Businesses by Geography	10,587	2.13%	20.02%	68.02%	9.83%
Farms by Geography	781	0.00%	12.68%	79.39%	7.94%
Family Distribution by Income Level	26,213	22.94%	18.76%	23.82%	34.49%
Household Distribution by Income Level	37,488	27.14%	17.04%	20.78%	35.04%
Census Median Family Income (MFI)	\$66,573	Median Housing Value			\$274,691
HUD-Adjusted MFI: 2012	\$72,600	Unemployment Rates:			
		Dorchester County			9.1%
		Caroline County			7.2%
		Talbot County			6.3%
Families Below the Poverty Level	10.68%				

Source: 2010 U.S. Census Data; 2012 HUD updated MFI; unemployment rate as of November 2013 Preliminary

NBC's AA consists of 25 census tracts. Dorchester County has nine census tracts, Caroline County has nine census tracts, and Talbot County has seven (in their AA). Overall, this AA has 1 low-income census tract, 5 moderate-income census tracts, 17 middle-income census tracts, and 2 upper-income census tracts.

The 2010 U.S. Census reported the total population of the AA at 96,123. Within the AA, there are 26,213 families and 37,488 households. There are 44,291 housing units, of which, 62.51% are owner-occupied, 22.13% are rental-occupied, and 15.36% are vacant housing units. The median housing cost is \$274,691

The 2000 median income was \$66,573, and the 2012 HUD updated MSA median family income was \$72,600. Approximately, 22.94% of the families are low-income, 18.76% are moderate-income, 23.82% are middle-income, and 34.49% are upper-income. Approximately 10.68% of households are below the poverty level.

According to the 2012 business demographics, there are a total of 10,507 businesses in the AA. Approximately 73.24% of the businesses reporting have revenues less than \$1 million, approximately 3.65% have revenues greater than \$1 million, and the revenue was not reported for approximately 23.11% of the businesses. Approximately 2.13% of businesses are located in the low-income geography, 20.02% are located in moderate-income geographies, 68.02% are located in middle-income geographies, and 9.83% are located in upper-income geographies.

Competition in the bank's assessment area from other financial institutions is strong. The bank's competitors include several local community banks. As of June 30, 2013, NBC had an 8.72% deposit market share, ranking it 4th among 14 institutions in the market. The bank's major competitors are Talbot Bank of Easton MD (ranked 1st with a 25.33% market share and 7 branches), Provident State Bank, Inc. (ranked 2nd with a

12.07% market share and 9 branches), and PNC Bank, NA (ranked 3rd with an 11.63% market share and 8 branches).

Economic activity is relatively diverse with manufacturing, agriculture, tourism, retail trade, and healthcare services being the primary economic activities. The major employers in the area are, University of Maryland Shore Health System, Allen Harim Foods, Amrick Farms, and Solo Cup.

According to the Bureau of Labor Statistics, the November 2013 preliminary unemployment rate for Dorchester County was 9.1%, Caroline County was 7.2% and Talbot County was 6.3%. The state unemployment rate was 6.2%, and the national unemployment rate was 7.0%.

We made one community contact during this review with a small business development organization that serves all three counties. Primary credit needs in the community include affordable housing and small business loans in Talbot and Caroline counties.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

NBC's performance under the lending test is satisfactory. The evaluation period covered lending activity for small business loans from January 1, 2012 through December 31, 2013, inclusive. Our analysis of the bank's performance for the respective evaluation factors is described below.

### **Loan-to-Deposit Ratio**

NBC's loan-to-deposit (LTD) is reasonable and meets the standards for satisfactory performance. The bank's LTD ratio averaged 73.18 % over the 23 quarters since the last CRA examination, with a quarterly low of 59.35 % and a quarterly high of 92.07 %. One similarly situated state savings bank was identified for comparison. The similarly situated bank has a LTD ratio of 82.8 % and total assets equaling \$287.2 million. Management plans to increase the level of loans and the LTD ratio going forward.

### **Lending in Assessment Area**

A majority of NBC's business loans were made within the bank's combined assessment areas, and this exceeds the standard for satisfactory performance. A substantial majority of the bank's lending activity is within its assessment area. We tested and relied on total loan origination data from January 1, 2012 through December 31, 2013 provided by bank reports. Based on our analysis, 90% of the total number and 94% of the total dollar volume of loans, respectively, were originated in the assessment area during the evaluation period.

The following table is an analysis of the distribution of small business loans.

<b>Table 1 - Lending in NBC's AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	18	90.00%	2	10%	20	1,647,096	94.17%	102,000	5.83%	\$1,749,096

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The distribution of loans reflects reasonable penetration among businesses of different sizes, and NBC's record of lending to businesses of different sizes meets the standard for satisfactory performance. The percentage of small loans to small businesses (businesses with gross annual revenues of \$1 million or less) is near to the percentage of businesses in the AA. The following table details the bank's performance in lending to businesses of different sizes.

<b>Table 2A - Borrower Distribution of Loans to Businesses in NBC's AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73.24%	3.65%	23.11%	100%
% of Bank Loans in AA by #	72.22%	27.78%	0.00%	100%
% of Bank Loans in AA by \$	39.96%	60.04%	0.00%	100%

**Geographic Distribution of Loans**

The geographic distribution of business loans reflects a reasonable dispersion throughout census tracts of different income levels, and NBC's performance meets the standard for satisfactory performance. Based on our loan sample, NBC made no small loans to businesses in low-income geographies. NBC's performance is reasonable when considering there is only one low-income census tract in NBC's AA and the bank is competing with several larger financial institutions for a limited number of opportunities to lend in this single low-income geography. However, the percentage of loans in moderate-income census tracts exceeds the percentage of businesses located in moderate-income tracts.

The following table details the bank's performance as compared to the percentage of businesses in each census tract income level.

<b>Table 3A – Geographic Distribution of Loans in NBC’s AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	2.13%	0.00%	20.02%	27.78%	68.02%	72.22%	9.83%	0.00%

**Responses to Complaints**

The National Bank of Cambridge did not receive any CRA related complaints during this evaluation period.

**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 (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 assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.