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Comptroller of the Currency  
Administrator of National Banks

**LARGE BANK**

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## **PUBLIC DISCLOSURE**

April 27, 1998

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

**Delaware National Bank  
Charter Number 16773**

**Route 113 & Edwards Street  
Georgetown, Delaware 19947**

**Comptroller of the Currency  
Eastern Pennsylvania Office  
Four Greenwood Square, Suite 120  
Bensalem, Pennsylvania 19020**

**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.

## 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 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 Community Reinvestment Act (CRA) performance of **Delaware National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 27, 1998**. The agency evaluates performance in assessment area(s), as they are 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 to 12 CFR Part 25.Z.

**INSTITUTION'S CRA RATING:** This institution is rated **“Satisfactory.”**

- ▶ A substantial majority ( 98%) of loans are originated in the bank's assessment area.
- ▶ Lending to small businesses is good which is responsive to the credit needs in the assessment area.
- ▶ Lending to borrowers of different income levels is adequate.
- ▶ Community development lending is adequate.
- ▶ Delaware National Bank provides an adequate level of community development services.

The following table indicates the performance level of **Delaware National Bank** with respect to the lending, investment, and service tests.

**Table I. Results of Performance Tests**

Performance Levels	Delaware National Bank		
	Performance Tests		
	Lending Test *	Investment Test	Service Test
<b>Outstanding</b>			
<b>High Satisfactory</b>			
<b>Low Satisfactory</b>	X	X	X
<b>Needs to improve</b>			
<b>Substantial noncompliance</b>			

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

### **Scope of the Examination**

This evaluation of Delaware National Bank (DNB) CRA performance covers the period from September 1995 through April 1998. The analysis is based on the bank's Home Mortgage Disclosure Act - Loan Activity Reports and Loan Registers. The bank is not required to report HMDA loans but does track HMDA loan activity. The specific loan products evaluated include: HMDA loans (i.e., home purchase mortgages, refinance, and home improvement loans) community development loans, and loans to small businesses and small farms. We also evaluated community development investments, retail services, and community development services. This review incorporated bank management's compilation of data as required by the regulation.

## **DESCRIPTION OF INSTITUTION:**

DNB is a \$132 million institution founded in 1979 and headquartered in Georgetown, Delaware. Georgetown is located west of the resort towns of Rehoboth Beach and Dewey Beach. The bank is a wholly-owned subsidiary of Fulton Financial Corporation (FFC), a \$4.5 billion bank holding company formed in 1982 and headquartered in Lancaster, Pennsylvania. FFC has eleven affiliate banks in Pennsylvania, Maryland, Delaware and New Jersey. DNB was purchased by FFC in August 1995.

At December 31, 1997, total bank assets were \$132 million, including loans at \$102 million, \$24 million in investments and total deposits of \$120 million. The bank's loan portfolio is primarily real estate loans (68% of total loans); the balance is in consumer loans at 24 %, commercial loans at 7%, and all other loans at 1%. There are no financial or legal impediments impacting DNB's ability to help meet its community's credit needs. Strong competition is provided by local and regional commercial banks as well as savings and loan associations.

## **DESCRIPTION OF ASSESSMENT AREA**

DNB has defined one assessment area which consists of Sussex County. This assessment area contains 24 contiguous block numbering areas (BNAs). There are no low-income BNAs (0%) and no moderate-income BNAs (0%) contained in the bank's assessment area. There are eighteen middle-income BNAs (75%), and one (4%) upper-income BNA. Five BNAs do not have income information available (21%). DNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income BNAs. Seventy-six percent (76%) of all businesses in the bank's assessment area are considered to be small businesses.

Based on 1990 census data, DNB's assessment area has a population of 113,229 which includes total families of 32,150. Projections for Sussex County indicate population is expected to grow to 165,539 by the year 2020. The 1990 census nonmetropolitan median income is \$31,112, compared to \$27,274 for the United States. The updated non-MSA median family income is \$40,200. Housing units total 74,253 of which 64% are one-to-four family units and 24% are mobile homes or trailers. Owner-occupied housing is 46% of the total, and rental-occupied housing is 12% of the total. Vacant housing units equal 41% of the total units.

The bank's assessment area contains a total of 43,483 households. The middle-income BNAs contain 42,380 households and the upper-income BNAs have 1,103 households. Again, there are no low- and moderate-income BNAs in the bank's assessment area. The median average cost of housing is \$105,598.

Tourism and the poultry industry are the major employers in the local area. Poultry processing plants employ a relatively large segment of the region. The local economy also depends upon tourist activities. The retirement age segment of the population has also been growing over the past few years. Many of these people choose to live in mobile home communities near the shore/resort areas. The County's predominant industry types are wholesale trade, services, and manufacturing. The local unemployment rate is 3.3%. This compares to 3.6% for the state of Delaware and 4.7% for the United States.

DNB has determined that there is an ongoing need for low cost housing and small business loans in their assessment area. A community development housing agency contacted during this examination cited the need for affordable, flexible mortgage products and operating grants.

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

### **LENDING TEST**

#### **Lending Activity**

In 1996, 136 HMDA type loans for a total of \$8,605,000 were made to borrowers in the bank's assessment area. In 1997, 49 HMDA loans for a total of \$3,420,000 were made to borrowers in the bank's assessment area. DNB has a 2.3% overall market share in their assessment area for HMDA loan originations.

DNB originated 161 small business loans totaling \$8,121 in their assessment area, 1996. In 1997, 98 small business loans were originated totaling \$4,730.

DNB's net loan to deposit ratio averaged 95% over the past two years and has remained stable over this time period. The peer group average for banks of similar size is 82%. The bank's loan to deposit ratio is high and exceeds its peer group average.

### **ASSESSMENT AREA CONCENTRATION**

DNB originates a substantial majority of loans in its assessment area. For 1996, 98% of the total number and 98% of the total dollar volume of HMDA loans were within the bank's assessment area. In 1997, 98% of the total number and 99% of the total dollar volume of HMDA loans were within the bank's assessment area.

Loans to small businesses in 1996 were made in the assessment area 99% of the time by number and 98% by dollar amount. For 1997, 99% of the total number and 99% of the total dollar volume of small business loan originations were within the assessment area.

In 1996, all small farm loans originated were in the bank's assessment area (\$91,000). In 1997, no small farm loans were granted in the assessment area.

## Geographic Distribution

Geographic distribution analysis was not conducted since it is not meaningful. There are no low- or moderate-income BNA's in the bank's assessment area.

## Borrower Characteristics

The percentage of HMDA loans made to low-income borrowers for 1996 (6%) and 1997 (2%) is low when compared to the percentage of low-income families (18%) in the assessment. Moderate-income borrowers for HMDA loans were also below the assessment area profile for moderate-income families. In 1996, 10% of HMDA loans were made to moderate-income borrowers. In 1997, 14% were to moderate-income borrowers. This compares to 19% of the assessment area identified as moderate-income families.

The median average cost of housing is \$105,598 and owner occupied housing represents 46% in the assessment area. The updated nonmetropolitan median family income is \$40,200. Income for low-income families is less than 50% of the median family income. Income for moderate-income families is at least 50% and less than 80% of the median family income. Therefore, low- and moderate-income families may have difficulty achieving home ownership.

The table below depicts HMDA lending to borrowers of all income levels.

**Table II. Lending to Borrowers of Different Income Levels**

<b>HMDA Loans - 1996 and 1997</b>					
	<b>1996</b>		<b>1997</b>		
<b>Income Level</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>Total Families</b>
<b>Low</b>	8	6%	1	2%	18%
<b>Moderate</b>	13	10%	7	14%	19%
<b>Middle</b>	28	20%	12	25%	24%
<b>Upper</b>	87	64%	29	59%	39%
<b>Total</b>	136	100%	49	100%	100%

DNB's lending to small businesses is good. In 1996, 86% of DNB's business loans by number and 85% by dollar amount were made to small businesses. In 1997, 90% of the business loans by number and 72% by dollar amount were made to small businesses. As noted before, 76% of all businesses in the bank's assessment area are considered small businesses. The following two tables provide a breakdown by original loan amount of small business and farm loans originated in the bank's assessment area during 1996.

**Table III. Small Business Loans Originated in 1996 ( Within the Assessment Area)**

Original Loan Amounts	Small Business Loans			
	#	%	\$ (000)	%
Less than \$100,000	140	87%	3,249	40%
\$100,000 to \$250,000	15	9%	2,244	28%
\$250,000 to \$1,000,000	6	4%	2,628	32%
<b>Total</b>	161	100%	8,121	100%

Business loans to firms with revenues <=\$1 million

**Table IV. Small Farm Loans Originated in 1996 (Within the Assessment Area)**

Original Loan Amount	Small Farm Loans			
	#	%	\$(000)	%
Less than \$100,000	4	100%	91	100%
\$100,000 to \$250,000	0	0%	0	0%
\$250,000 to \$1,000,000	0	0%	0	0%
<b>Total</b>	4	100%	91	100%

Farm loans to farms with revenues <=\$1 million

The following table provides a breakdown by the original loan amount of small business loans originated in the bank's assessment area during 1997. As illustrated, the majority of these loans are for less than \$100,000.

**Table V. Small Business Loans Originated in 1997 (Within the Assessment Area)**

Original Loan Amounts	Small Business Loans			
	#	%	\$ (000)	%
<b>Less than \$100,000</b>	85	87%	2,217	47%
<b>\$100,000 to \$250,000</b>	10	10%	1,597	34%
<b>\$250,000 to \$1,000,000</b>	3	3%	916	19%
<b>Total</b>	98	100%	4,730	100%

Business loans to firms with revenues <=\$1 million

Additionally, business loans were granted to firms with annual revenues greater than \$1,000,000. In 1996, 20 loans (\$444,000) to large businesses were granted less than \$100,000 in size, an additional four loans (\$550,000) were made between \$100,000 and \$250,000 in size and one loan (\$500,000) was made for \$250,000 to less than \$1,000,000 in size. In 1997, loans to businesses with revenues greater than \$1,000,000 included four loans (\$135,000) less than \$100,000 in size, six loans (\$1,050,000) between \$100,000 and \$250,000 in size and, one loan (\$670,000) was made between \$250,000 and \$1,000,000 in size. DNB is responsive to the credit needs of small businesses.

Farm Loans were also granted to establishments that generated more than \$1 million in revenue. In 1996, one loan of this type for \$400,000 was granted. In 1997, two loans less than \$100,000 each were generated for a total of \$70,000. Additionally, two loans between \$100,000 and \$250,000 were granted to farming concerns for a total of \$270,000.

### **Community Development Lending**

DNB granted a six-month mortgage loan for **\$175,000** to provide interim financing for the purchase of a restaurant building. The building is to be used as a culinary training center for individuals who receive public assistance. The building will also be used as a training forum for child care providers as well as a child care development center for individuals receiving public assistance.

## **Innovative or Flexible Lending Practices**

DNB offers a flexible Special Mortgage Product Program to aid low- and moderate-income home buyers. The volume of lending activity under the program is limited due to the product not being as attractive as other available loan products. The bank recently revised the terms to be more competitive with other institutions. Highlights of the program follow:

- 95% Loan-to-Value financing.
- No points.
- No application fees.
- No mortgage insurance.

A one million-dollar pool of funds has been allocated for this program. To qualify for the program, applicants must complete and be approved by the First State Community Action Agency (FSCAA) Homeownership Counseling Program and must meet federal low- to moderate-income guidelines. Applicants must also meet the bank's standards for qualifying ratios. The appraisal fee is borne by the applicant. Finally, the property must be located in Sussex County.

Two Special Mortgage Product loans were originated for **\$69,700** in 1996. An additional four loans were made in 1997 for **\$261,800**.

## **INVESTMENT TEST**

The bank has an adequate level of qualified community development grants given their capacity. DNB's average loan to deposit ratio over the evaluation period is 95%.

A total of \$3,000 was granted in 1996 and 1997. For each loan originated under the Special Mortgage Product described above, DNB donates \$500 to FSCAA for operating expenses.

## **SERVICE TEST**

### **Retail Banking Services**

The bank provides banking services in Sussex County through six full-service banking facilities. Five of the six offices offer automated teller machines (ATMs). The bank also has one remote ATM located at a travel plaza. No offices have been opened or closed during this review period. Hours of operation at all six branches are 9AM to 3PM. Monday through Thursday the drive through is open until 4:30PM. On Fridays, the bank is open 9AM to 6PM with Saturday hours of 9AM to 12 Noon. Branches are reasonably dispersed throughout the bank's assessment area.

Deposit services include personal checking, business checking, and savings accounts. Loan products include consumer loans (unsecured and secured personal), automobile loans, overdraft protection, loans for boats, motorcycles and recreational vehicles, and loans secured by savings accounts or certificates of deposit. Real estate loans are available to purchase, refinance, construct or improve real property. Commercial real estate loans and business loans are offered by DNB. The Phone Loan Line is a service which allows applicants to call the bank and complete an application for a loan over the telephone, or simply have the forms faxed to them. Other services include debit cards and credit cards.

The bank has two deposit package accounts marketed to individuals who are 50 years of age or older. These accounts feature reduced or waived fees and additional services such as invitations to financial seminars.

### **Community Development Services**

DNB offers several products and services designed specifically to address the needs of the low- and moderate-income population. The bank offers totally free checking that features no per month maintenance fee. A \$200 minimum opening balance is required. Other features of this product include free telephone transfers, no per check fee, and a waived annual fee on MasterCard/Visa cards.

Nonprofit businesses are offered checking accounts with no maintenance fees and unlimited check writing privileges. Credit counseling is offered either in-house or through outside nonprofit organizations.

The CRA Officer is a Director at La Casita, an advocacy organization which exists to improve life opportunities for low- and moderate-income Latinos living and working on the Delmarva Peninsula. One of the organization's goals is to assist in housing issues affecting the Latino community. Mr. Donovan is also a Director and Treasurer of the Historic Georgetown Association. This organization was selected to receive funds from the Delaware Housing Authority for the Acquisition/Rehabilitation Loan Program. This program provides investors and low- or moderate-income home buyers with loan packages which enables them to simultaneously afford to buy and rehabilitate homes in disrepair.

The Senior Loan Officer aided an elderly couple who were evicted from their home to obtain subsidized housing. This effort involved acting as an advocate and intermediary with federal housing agencies.

### **Compliance with Antidiscrimination Laws**

A fair lending review performed in conjunction with this CRA examination revealed that DNB is complying with fair lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.

**Scope of Examination**

<b>Time Period Reviewed</b>	September 1995 through April 1998		
<b>Financial Institution</b> Delaware National Bank Georgetown, DE			<b>Products reviewed</b> HMDA reportable loans, small business and small farm loans.
<b>Affiliates</b>	<b>Affiliate relationship</b>		<b>Products reviewed</b>
None			

**List of Assessment Areas and Type of Examination**

<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Branches Visited</b>	<b>Other Information</b>
Non-MSA rural Delaware	On-site		