



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 29, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Capital Bank, National Association
Charter Number 23850
1776 East Jefferson Street
Rockville, MD 20852**

**Comptroller of the Currency
ADC - Maryland/National Capital Area
250 E Street, SW (MS 3-5)
Washington, DC 20019-0001**

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 primary factors supporting the bank's overall rating include:

- o The loan-to-deposit ratio is reasonable. The bank opened in December 1999. Their loan-to-deposit ratio averaged 62.17% versus peer banks of 75.64%. For the year 2003 to date, the bank's loan-to-deposit ratio averaged 89.35% versus peer banks of 68.98%, more representative of the bank's lending activities following the initial start-up years.
- o A substantial majority of loans, 90% of the dollars of loans and 96% of the number of loans, were originated in the bank's assessment area.
- o The penetration of loans to businesses of different sizes is reasonable. Small business loans originated to businesses with annual revenues of \$1 million or less are 67% of the number and dollars of loans.
- o The geographic distribution of loans is an area where the bank should focus to enhance performance.

DESCRIPTION OF INSTITUTION

Capital Bank, N.A. (CBNA) opened on December 14, 1999. This is the bank's first CRA examination. The bank was originally named Harbor Capital National Bank until the bank's name was changed to its present name on April 2, 2003. The bank has one contiguous market located within the State of Maryland, the District of Columbia and the State of Virginia. The bank is a wholly owned and sole subsidiary of HCNB Bancorp, Inc., incorporated in the State of Maryland on February 24, 1998.

CBNA's headquarters and only office are centrally located in Montgomery County, Maryland where most of the bank's business activities are performed. The bank's lending activities are primarily business loans, principally commercial real estate and commercial loans. At June 30, 2003, total assets stood at \$45 million. Net loans are 69% of total assets. The loan portfolio consists of 47% commercial real estate loans, 27% residential 1-4 family property loans, 22% commercial loans, and 4% consumer loans.

CBNA offers a full range of deposit and loan services. The office is open Monday through Thursday from 9:00AM to 3:00PM, and on Fridays from 9:00AM to 5:00PM. The bank has no proprietary ATMs. However, the bank is a member of two ATM networks, Star and Cirrus. CBNA refunds customers up to \$6.00 monthly for ATM fees charged when a customer uses other ATMs in the member networks. There are no legal, financial, or other factors impeding CBNA's ability to help meet the credit needs in its assessment areas.

DESCRIPTION OF ASSESSMENT AREA

CBNA has one contiguous assessment area located within a portion of two MSAs. The

assessment area meets the requirements of the regulation. The portion of the bank’s assessment area in the greater Washington, DC MSA 8840 consists of the District of Columbia; the Counties of Frederick, Montgomery and Prince Georges in the State of Maryland; and, the Counties of Loudoun, Fairfax, Arlington and Prince William and the Cities of Fairfax, Alexandria, Manassas and Manassas Park in the State of Virginia. The portion of the bank’s assessment area in the greater Baltimore, Maryland MSA 0720 consists of the City of Baltimore, and the Counties of Baltimore, Carroll, Howard and Anne Arundel in the State of Maryland. The 2002 updated HUD median family income for MSA 8840 is \$91,500 and for MSA 0720 is \$66,400. CBNA’s assessment area demographics and tract income characteristics are noted below.

ASSESSMENT AREA DEMOGRAPHICS

Tract Characteristics	Number of Tracts	Percentage of Tracts
Low-Income	121	8 %
Moderate-Income	306	21 %
Middle-Income	601	41 %
Upper-Income	361	25 %
NA	74	5 %
Total	1,463	100 %

Overall, the general economic condition in CBNA’s assessment area is considered slow. Based on the US Bureau of Labor Statistics, the unemployment rate generally has approached 4% in MSA 8840, and has been in excess of 5.00% in MSA 0720. There are numerous local, regional and national businesses within the bank’s assessment area. In the portion of the bank’s assessment area in MSA 8840, there are in excess of 85,000 business establishments. The service industry employs the largest number of individuals, followed by the industries of retail trade, real estate and finance, construction and transportation. In terms of the number of employers, the service industry is the largest, followed by the retail trade, real estate and finance, construction, wholesale trade, and the transportation industries. In terms of housing for MSA 8840, 55% are owner occupied units and 37% are rental units. Of these units, 65% are 1-4 family units and 33% are multifamily units.

In the portion of the bank’s assessment area in MSA 0720, there are in excess of 54,000 business establishments. The service industry employs the largest number of individuals, followed by the industries of retail trade, manufacturing, real estate and finance, wholesale trade, and construction. In terms of the number of employers, the service industry is the largest, followed by the retail trade, construction, real estate and finance, wholesale trade, and transportation industries. In terms of housing for MSA 0720, 58% are owner occupied units and 35% are rental units. Of these units, 78% are 1-4 family units and 19% are multifamily units.

Strong competition from other community and regional banks, thrifts, credit unions, and non-financial institutions is evident in the community the bank serves. Our community contact during the examination affirmed the primary credit needs of the community the bank serves as loans to small businesses and residential mortgage loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period is from the opening of the bank on December 14, 1999 through June 30,

2003 inclusive. The bank's performance for the respective evaluation factors is described below.

LOAN-TO-DEPOSIT RATIO

CBNA's loan-to-deposit ratio is reasonable considering the bank opened on December 14, 1999.

We reviewed the quarterly loan-to-deposit average for the fifteen quarters during the evaluation period. During this period, CBNA's loan-to-deposit ratio averaged 62.17% versus peer banks of 75.64%. For the year 2003 to date, the bank's loan-to-deposit ratio averaged 89.35% versus peer banks of 68.98%. This is more representative of the bank's lending activities following the initial start-up years for the bank.

LENDING IN THE ASSESSMENT AREA

A substantial majority of CBNA's loans and lending-related activities are in the bank's assessment area. We tested and relied on loan origination data in bank reports for the evaluation period provided by the bank. Our analysis reflects 90% of the dollars of loans, representing 96% of the numbers of loans, are in the bank's assessment area.

LENDING TO BUSINESSES OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOMES

The distribution of loans reflects reasonable penetration to businesses of different sizes. We tested and relied on business loan origination data in bank reports for the evaluation period provided by the bank. Small business lending has been CBNA's primary lending focus since it opened. Our analysis reflects 67% of the number and dollars of loans are loans to small businesses with annual revenues of \$1 million or less.

We noted in our review that CBNA had no loans that required Home Mortgage Disclosure Act (HMDA) data collection and/or reporting from 1999 through 2001 inclusive. For the year 2002 and 2003 to date, the bank had a minimal level of loans that required HMDA data collection only, an analysis of which would not be meaningful.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans is an area where CBNA should focus to enhance performance. We tested a random sample of loans the bank originated during the evaluation period. Our analysis of the sample reflects 5% of the number of loans and 1% of the dollars of loan originated in low-income geographies, and 15% of the number of loans and 7% of the dollars

of loans originated in moderate-income geographies. This compares unfavorably to the demographics of the assessment area in which 8% of the census tracts are low-income and 21% are moderate-income. CBNA is newly opened with only one location in Montgomery County

which is where much of the bank's lending activities are focused. In this county, 1% of the census tracts are low-income tracts, 11% are moderate-income tracts, 41% are middle-income tracts, and 46% are upper-income tracts.

RESPONSES TO COMPLAINTS

CBNA has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

FAIR LENDING REVIEW

We found no violations of the substantive provisions of the anti-discrimination laws and regulations. We reviewed HMDA information and the consumer complaint information and found no issues or exceptions. As a result, the OCC decided that a comprehensive Fair Lending examination would not need to be conducted in connection with this CRA evaluation.