



PUBLIC DISCLOSURE

April 27, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hamilton Bank
Charter Number 701904

5600 Harford Rd
Baltimore, MD 21214-2236

Office of the Comptroller of the Currency
Washington, DC Field Office
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 that support these ratings include:

- The loan-to-deposit ratio meets the standards for satisfactory performance and is reasonable based on the Bank's size, steady increase over the evaluation period, investment in lending-related assets, and relevant competitive factors.
- The Bank's lending in its assessment area exceeds the standards for satisfactory performance. Ninety-seven percent of all Home Mortgage Disclosure Act (HMDA) reported loans originated in the review period were within the Bank's assessment area.
- The overall performance of lending to borrowers of different incomes reflects reasonable proportion and meets the standards for satisfactory performance.
- The overall performance for the geographic distribution of loans reflects reasonable distribution and meets the standards for satisfactory performance.
- The Bank did not receive any CRA-related complaints during the evaluation period.

SCOPE OF EVALUATION

The Community Reinvestment Act (CRA) Performance Evaluation (PE) for Hamilton Bank (Hamilton or Bank) was conducted by the Office of the Comptroller of the Currency (OCC) in accordance with the small bank evaluation procedures. Under the small bank evaluation procedures, the Bank's CRA performance was assessed 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. In addition to the lending test, the Bank requested a review and evaluation of its performance in community development lending, qualified community development investments, and community development services.

The evaluation period for the lending test is January 1, 2013 to December 31, 2014. The Bank's primary loan product is Home Mortgage Disclosure Act (HMDA) reportable lending. The OCC performed a data integrity review prior to the CRA evaluation and determined that the overall level of data integrity is sufficient and within guidelines to ensure an accurate CRA analysis.

DESCRIPTION OF INSTITUTION

Hamilton is a federally chartered stock savings bank headquartered in Baltimore, MD. Total assets increased \$58 million since the prior evaluation. As of March 31, 2014, total assets equaled \$285 million. The asset increase was concentrated in investments primarily mortgage-backed securities. Due to slow loan growth over the last several years, the Bank placed excess cash into investments. The Bank's asset mix is 56 percent loans and 35 percent investments. The Bank's loan portfolio consists primarily of 1-4 family residential loans with these loans totaling 53 percent of total loans.

The Bank operates four branches located in Baltimore, Cockeysville, Pasadena, and Towson, MD. These branches are located in moderate-, middle-, and upper-income census tracts. The Bank opened a branch office in 2009 in Pasadena, MD. In 2011, the Bank opened a limited branch in the administrative office in Towson, MD. In 2013, the Bank closed the Belmar branch located in Baltimore, MD. In May 2015, the Bank closed one of the Towson branches, and the branch located at the administrative office in Towson, MD became a full service branch. All offices offer the full range of consumer and business loan and deposit products and services. Each office has an ATM and two have drive-up facilities. Online banking and mobile banking are available to accountholders.

The Bank offers a variety of lending and deposit services, including first lien residential mortgages, home equity loans, home equity lines of credit, and a variety of consumer loans. The Bank also offers several commercial lending products. The Bank offers first time homebuyer products and participates in loan programs that enhance underwriting flexibility and reduce lending costs to eligible borrowers. These programs help address a broader range of credit needs in the assessment area than the traditional product line. These programs include Baltimore County Settlement Expense Loan Program (SELP), Mortgage Assistance Loan Program (MALP), Neighborhood Conservation Initiative, Healthy Neighborhoods, and Federal Home Loan Bank Set Aside program. The Bank is also a Federal Housing Administration (FHA) lender.

The Office of Thrift Supervision performed Hamilton Bank's prior CRA evaluation dated December 31, 2008 and rated the Bank "Outstanding".

There were no legal or regulatory impediments adversely affecting the Bank's ability to meet community credit needs during this CRA evaluation review period.

DESCRIPTION OF ASSESSMENT AREA

Hamilton Bank’s assessment area includes:

Hamilton Bank’s Assessment Area Baltimore-Towson-Columbia, MD MSA 12580						
Anne Arundel County	Baltimore County	Baltimore City	Carroll County	Harford County	Howard County	Queen Anne’s County

The Bank’s assessment area includes all of the Baltimore-Towson-Columbia Metropolitan Statistical Area (MSA). The Bank’s assessment area consists of 681 census tracts and does not arbitrarily exclude any low- or moderate-income census tracts. Low- and moderate-income geographies represent 14.68 percent and 21.59 percent of these tracts, respectively. Middle-income geographies represent 33.33 percent of the tracts, and upper-income represents 28.93 percent. The remaining 1.47 percent of the tracts have not been assigned an income classification.

Hamilton’s assessment area contains a variety of economic environments including cities, suburban communities and rural towns in low-, moderate-, middle-, and upper-income census tracts. Major industries in the area include federal, state, and local government, health care services, manufacturing, retail trade, education and financial services firms. Per the U.S. Bureau of Labor Statistics, the unemployment rate in the Bank’s assessment area as of March 2015 is 5.7 percent. The unemployment rate is slightly higher than the 5.4 percent Maryland state unemployment rate as of March 2015.

The Bank faces competition from branches of larger regional and national banks as well as local community banks. These larger financial institutions have extensive branch network systems throughout the region. The Bank’s branch presence is concentrated in Baltimore City, Baltimore County, and Anne Arundel County. Based on 2013 peer mortgage data, five lenders in the Bank’s assessment area represent 35.73 percent of the market share for mortgages. In contrast, Hamilton’s market share of mortgages in its assessment area is 0.03 percent. According to the June 30, 2014 FDIC Summary of Deposit Market Share report, five financial institutions have 74 percent of the deposit market share in the Bank’s assessment area. In contrast, the Bank’s deposit market share is 0.38 percent.

Table 1, which is based on 2010 Census data, sets forth certain demographic characteristics of the Bank’s assessment area.

Table 1: Demographic Information for Full Scope Area: Hamilton Assessment Area 2014						
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	200,412	6.93	14.18	37.63	41.04	0.22
Farms by Geography	4,438	1.89	7.30	40.74	50.07	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	
HUD Adjusted Median Family Income for 2014		81,788	Unemployment Rate (March 2015 U.S Bureau of Labor Statistics)		5.7%	
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 2014 HUD updated MFI

The 2010 U.S. Census Data reported the total population of the assessment area to be approximately 2.7 million. Within the assessment area, there are 665,999 families. Of these, 21.42 percent are low-income, 17.32 percent are moderate-income, 20.96 percent are middle-income, and 40.31 percent are upper-income. Further, 9.33 percent of households are below the poverty level. The 2010 U.S. Census and 2014 HUD-adjusted median family income are \$81,788. A low-income family makes less than 50 percent of the median family income, and a moderate-income family makes 50 to 79 percent of the median family income.

Per the 2010 U.S. Census Data, approximately 5.64 percent of owner-occupied housing is in low-income geographies, 16.61 percent is in moderate-income geographies, 38.98 percent is in middle-income geographies, and 38.76 percent is in upper-income geographies. The median housing value for the assessment area is \$296,066.

In assessing the Bank's performance, the OCC contacted a community service organization and reviewed other community contact data to gain a better understanding of the community needs. Affordable homes are the primary concern for the assessment area. There is also a need for access to traditional banking services in the assessment area. According to community contacts, there are opportunities for local financial institutions to participate in the community beyond monetary contributions. Community contacts noted that volunteering, financial literacy, and educational training programs

administered by bank staff would be beneficial to the community. Other opportunities include participating in Small Business Administration lending programs to help local financial institutions alleviate the perceived risk associated with lending to marginal borrowers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Bank's performance under the lending test is "Satisfactory" and meets the standards for satisfactory performance in its responsiveness to the needs of its assessment area. All lending test criteria are listed below:

Loan-to-Deposit Ratio

The Bank's average loan-to-deposit ratio for the 24 quarters of the performance evaluation is low at 63.06 percent when compared to peer average of 76.39 percent. However, the Bank faces strong competition and a lack of loan demand over the evaluation period. In addition, the Bank purchased a branch of K Bank in 2009, where they gained all of the branch's deposits, causing the loan-to-deposit ratio to decrease significantly. The Bank's loan-to-deposit ratio has increased steadily over the last few years, with a loan-to-deposit ratio of 69.74 percent as of March 31, 2015. As a traditional thrift lender, Hamilton Bank concentrates on the origination of residential mortgage loans. Funds not deployed through lending activities are primarily invested in mortgage-backed securities, as 78 percent of the Bank's \$100 million investment portfolio is in mortgaged-backed securities.

As a result of the Bank's size, market competition, lack of loan demand, steady increase in loan-to-deposit ratio, and significant investment in lending related assets, the loan to deposit ratio is considered reasonable, and meets the standards for satisfactory performance.

Lending in Assessment Area

The Bank's lending in assessment area exceeds the standards for satisfactory performance. A substantial majority of loans were originated inside the Bank's assessment area. In total, the Bank originated 76 loans totaling \$20.98 million over the assessment period. Of the 76 originations, 97.37 percent were originated within the Bank's assessment area.

Table 2 displays the breakdown of originations inside and outside of the assessment area:

Table 2: HMDA Reportable Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans(000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA Reportable	74	97.37	2	2.63	76	\$20,697	98.63	\$288	1.37	\$20,985

Source: HMDA L/AR 1/1/2013-12/31/2014

Lending to Borrowers of Different Incomes

The distribution of lending to borrowers of different incomes reflects reasonable penetration and meets the standard for satisfactory performance. The Bank's lending to low-income borrowers exceeds the average aggregate HMDA distribution. The Bank's lending to low-income borrowers was 9.59 percent, compared to the aggregate HMDA average of 9.26 percent. Lending to low-income borrowers is within a reasonable range below the percent of low-income families in the assessment area, considering the proportion of families below the poverty level in the assessment area. The Bank's lending to moderate-income borrowers is significantly below the aggregate HMDA distribution. The Bank's lending to moderate-income borrowers was 9.59 percent, compared to the aggregate HMDA average of 19.61 percent. The Bank's lending to moderate-income borrowers is significantly below the percentage of moderate-income families in the assessment area.

Lending to the low- and moderate-income borrowers is challenging for a prime mortgage lender, as the assessment area median housing value is greater than four times the maximum income in the moderate-income category. The 20 percent down payment for a traditional mortgage on a home priced at the median value would exceed 90 percent of a year's gross income for a moderate-income borrower. Although the ratios are lower for properties in low- and moderate-income areas, the relatively low incomes limit the amount of disposable income available for housing payments. This limits lending opportunities for a traditional lender oriented toward lending to homeowners. The performance with low- and moderate-income borrowers was positively impacted by the Bank's participation in first time homebuyers programs and FHA lending.

Based on the comparative distribution of demographic data and aggregate loans by borrower income level, and considering the assessment area poverty level at 9.33 percent and median housing cost, Hamilton's residential mortgage lending performance meets the standards for satisfactory performance.

Table 3 shows the distribution of residential mortgage loans among borrowers of different income levels for the period of January 1, 2013 through December 31, 2014, as compared to the percentage of families in each income category as well as the aggregate peer performance in 2013, the most recent year for which data is available.

Table 3: HMDA-Reportable Assessment Area Lending: January 1, 2013 – December 31, 2014						
Borrower Income Levels	Number	No. Pct.	Dollar (000)	\$ Percent	Percent of Families	2013 Aggregate HMDA
Low = <50%	7	9.59%	\$375	2.12%	21.42%	9.26%
Moderate = 50-79%	7	9.59%	848	4.79%	17.32%	19.61%
Middle = 80-119%	11	15.07%	1,632	9.22%	20.96%	23.93%
Upper = > 120%	48	65.75%	14,842	83.87%	40.31%	47.21%
Total	73	100.00%	\$ 17697	100.00%	100.00%	100.00%

Note: Borrower income was not captured for 1 loan

Geographic Distribution of Loans

The geographic distribution of loans reflects adequate dispersion throughout census tracts of different income levels. There were no conspicuous gaps identified within Bank's assessment area.

The Bank's performance with low-income geographies is commensurate with the average aggregate HMDA distribution and compares reasonably to the percentage of owner-occupied housing units within this assessment area. The Bank made 2.70 percent of loans in low-income geographies, which falls within a reasonable range below industry comparators. The Bank's lending in moderate-income geographies is significantly below peer comparators. The Bank's performance meets the standards for satisfactory performance when considering the satisfactory performance with low-income borrowers, and the strong competition the Bank faces in its market.

Table 4 illustrates residential loan originations, categorized by geography income level, that were reported by the Bank during the review period, and compares this activity to the 2013 aggregate lenders. The table also includes a comparison to the percentages of owner-occupied housing units within the assessment area.

Table 4: HMDA-Reportable Assessment Area Lending: January 1, 20013 – December 31, 2014						
Income Level of Census Tract (1)	Number	No. Pct.	Dollar (000)	\$ Percent	% of AA Owner- Occupied Housing Units	2013 Aggregate HMDA
Low = <50%	2	2.70%	\$160	0.77%	5.64%	3.05%
Moderate = 50-79%	5	6.67%	359	1.73%	16.61%	11.07%
Middle = 80-119%	28	37.84%	5,791	27.98%	38.98%	38.41%
Upper = > 120%	39	52.70%	14,387	69.51%	38.76%	47.47%
Total	74	100.00%	\$20,697	100.00%	100.00%	100.00%

Community Development

Hamilton has made significant commitments and contributions to community development activities, showing an excellent level of responsiveness to serving community needs. The Bank also provides several financial education services to its customers through newsletters and seminars. Bank Directors, officers, and staff provide financial expertise by serving on Board committees of community development organizations.

Community Development Loans

The Bank originated 33 community development loans totaling \$9.4 million in its assessment area throughout the evaluation period. The Bank also originated one loan for \$825 thousand that supports the broader regional area surrounding the Bank's assessment area. The majority of the community development loans were made to small businesses, in which loan proceeds went to various functions supporting the businesses, which assisted in creating new jobs or retaining jobs within the assessment area. Of these loans, 15 were originated to businesses in low- and moderate-income geographies.

Hamilton Bank Community Development Loans				
	2013	2014	YTD 2015	Total
# Loans	9	20	5	34
\$ Loans	\$2,963,000	\$5,515,113	\$1,795,000	\$10,273,113

Hamilton is involved in the Healthy Neighborhoods Initiative, which provides special below-market loans to homebuyers and homeowners in Baltimore City to encourage investment and standard-setting renovation. The Bank has committed \$4 million to loan pool one and \$4 million to loan pool two of the Healthy Neighborhoods Initiative. Currently the Bank's participation includes 235 loans in pool one totaling \$3.73 million and 84 loans in pool two totaling \$1.74 million.

The Bank has also partnered with Habitat for Humanity of the Chesapeake to extend mortgages to new homeowners that have gone through the Habitat program. The Bank has closed one loan through this partnership.

Qualified Investments

Over the evaluation period the Bank made community development donations totaling \$26,150. These donations were made to organizations that provide homeownership opportunities and financial literacy education for low- and moderate-income individuals and families. The investments also include donations to organizations that provide community services for low- and moderate-income individuals and families. Examples of these investments include donations to The Maryland Coalition for Financial Literacy, HARBEL housing partnership, St. Ambrose Housing Aid Center, Maryland legal services, and Baltimore County SELP Program.

Community Development Services

Hamilton provides an outstanding level of community development services within its assessment area. The Bank's Board of Directors, senior management, and staff members are actively engaged in providing support to community development organizations and in volunteer efforts. The Bank provided support to community development organizations that provide services for small business and economic development, affordable housing, and community services, which target low- and moderate-income individuals and families. The following highlights some of the community development services that were provided during the evaluation period:

- One Board member provides financial expertise while serving on the Board of Healthy Neighborhoods Inc.
- The Bank is a founding member of the HARBEL Housing Partnership. This partnership created in 1993 provides pre-purchase home buyer workshops and counseling, credit & budget counseling, and pre settlement workshops. Several Bank officers serve on the partnership's Advisory Board.

- One Board member provides financial expertise while serving on the Board and loan committee of the Neighborhood Housing Service of Baltimore.
- One officer provides financial expertise by serving on the loan committee for Baltimore County Small Business Loan Fund.
- The Bank participates annually in Teach Children to Save, in which several Bank employees visit elementary schools located primarily in low- and moderate-income geographies to educate students on saving and budgeting.
- Bank employees participated in “Spring Cleaning for Financial Fitness” which is a program that provides credit counseling and information sessions surrounding savings, recordkeeping, foreclosure prevention, and available programs primarily to low- and moderate-income individuals.
- The Bank provides quarterly newsletters to all customers, which provide financial education through articles surrounding small business lending, budgeting and saving, college tips, card compromises, HELOC and lines of credit, and fraud prevention.

Responses to Complaints

No complaints concerning Hamilton Bank’s performance in meeting the credit needs of the assessment area have been received since the preceding evaluation.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR § 25.28(c) or 12 CFR § 195.28(c), in determining a National Bank’s (NB) 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 NB or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the NB’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.