



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 20, 2009**

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

Capital Bank, National Association  
Charter Number 23850

One Church Street  
Rockville, MD 20850

Office of the Comptroller of the Currency

WASHINGTON, DC METRO SATELLITE OFFICE  
395 E Street, SW, Suite 850  
Washington, DC 20024

**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 quarterly average net loan-to-deposit ratio is more than reasonable and exceeds the standards for satisfactory performance;
- A majority of the bank's loans were originated in the bank's combined assessment area;
- The distribution of loans reflects reasonable penetration among businesses of different sizes; and
- The geographic distribution of business loans reflects a reasonable dispersion throughout census tracts of different income levels.

**SCOPE OF EXAMINATION**

This Small Bank Community Reinvestment Act (CRA) 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, 2006 through December 31, 2008, as this is representative of the bank's lending strategy since the last Community Reinvestment Act examination. The bank's primary loan product is small business loans. Since the bank collected and provided information on all business loans originated from January 1, 2006 through December 31, 2008, we utilized all of the small business loan data for the lending test.

**DESCRIPTION OF INSTITUTION**

Capital Bank, National Association (CBNA) is an interstate community bank headquartered in Rockville, MD. As of December 31, 2008, CBNA had total assets of \$219 million and tier one capital of \$18 million. CBNA is a wholly owned subsidiary of Capital Bancorp, a one-bank holding company. CBNA does not have any operating subsidiaries.

As of December 31, 2008, CBNA operates its main branch and one other full service branch in Montgomery County, Maryland and one full service branch in the District of Columbia (DC). All three branches are open weekdays from 9:00 AM until 3:00 PM and until 5:00 PM on Friday. The main branch and the DC branch have Automated Teller Machines (ATMs). During the evaluation period, CBNA closed the 1776 Jefferson Street branch that was located in a middle-income census tract (CT) in Rockville, Maryland and opened the Executive Boulevard branch, which is located in an upper-income CT in Bethesda, Maryland. In 2004, the bank moved its Main Office to a moderate-income CT located at One Church Street, Rockville, MD. There were no

mergers or acquisitions during the evaluation period.

CBNA is a full service community bank offering a standard range of retail banking and commercial banking services. Its retail services include checking accounts, savings programs, money-market accounts, certificates of deposit, consumer loan programs, and residential mortgages. Its commercial services include small business checking accounts, commercial checking accounts, commercial mortgages, and lines or letters of credit.

As of December 31, 2008, CBNA reported net loans and leases of \$159 million or 72% of total assets. The loan portfolio is comprised of: 18.96% one to four family residential real-estate loans, 80.40% commercial real estate loans, and 0.64% loans to individuals. CBNA's primary lending activity from January 1, 2006 through December 31, 2008 was business lending.

Competition is strong and includes local community banks and branches of larger regional and national banks. CBNA's main competitors are: E\*Trade Bank, Wachovia Bank, NA, Capital One, NA, Bank of America, NA, and SunTrust Bank.

There are no financial or legal impediments to hinder CBNA's ability to help meet the credit needs of the communities it services. CBNA's last Public Evaluation (PE), dated September 29, 2003, was rated Satisfactory.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

### **Selection of Areas for Full-Scope Review**

CBNA operates in two metropolitan divisions (MDs) that are part of the Washington-Arlington-Alexandria, DC-VA-MD-WV Multi-state MSA 47900. The first MD is the Bethesda-Frederick-Gaithersburg, MD MD 13644. The second MD is the Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894. Each MD received a full-scope review.

### **Ratings**

CBNA's overall rating is a blend of the two full-scope reviews. More weight was placed on the Bethesda-Frederick-Gaithersburg, MD MD 13644 because two of the three branches are in this AA, the bank is headquartered in this AA, and a majority of the bank's deposits and lending originated in this AA.

### **Description of the Washington-Arlington-Alexandria, DC-VA-MD-WV Multistate Metropolitan Assessment Area**

CBNA has one assessment area that covers eight counties within the District of Columbia, Virginia, and Maryland. These eight counties are located within the Washington-Arlington-Alexandria, DC-VA-MD-WV Multi-state MSA 47900. One county

is located within the Bethesda-Frederick-Gaithersburg, MD MD 13644 and seven of the counties are located within the Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894. Since the bank’s assessment area contains counties that fall under two different Metropolitan Divisions, the bank has two assessment areas for analysis purposes. The two assessment areas are described below:

**The Bethesda-Frederick-Gaithersburg, MD MD 13644,**

The bank’s primary AA is a portion of the Bethesda-Frederick-Gaithersburg, MD MD 13644. The Bethesda-Frederick-Gaithersburg, MD MD 13644 is comprised of Frederick County and Montgomery County in Maryland. CBNA designated all 177 census tracts in Montgomery County as its AA. Frederick County was excluded because CBNA can not reasonably service this area. This AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Below is a summary of demographic information for this AA:

Demographic Information for MD 13644 Bethesda-Fredrick-Gaithersburg, MD						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	177	1.13	23.16	39.55	36.16	0.00
Population by Geography	873,341	0.97	23.03	42.00	34.00	0.00
Owner-Occupied Housing by Geography	223,008	0.38	14.09	44.17	41.36	0.00
Business by Geography	87,644	0.38	23.15	40.77	35.70	0.00
Farms by Geography	1,332	0.45	16.37	44.59	38.59	0.00
Family Distribution by Income Level	226,024	17.70	17.89	22.34	42.07	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	80,440	1.76	35.50	44.64	18.11	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		79,252 101,100 5%	Median Housing Value Unemployment Rate (2000 US Census)	230,387 4.8%		

(\* ) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2008 HUD updated MFI; Unemployment Rate – Jan 2009 Bureau of Labor Statistics

Of the 177 census tracts in Montgomery County, two are low-income geographies, 41 are moderate-income geographies, 70 are middle-income geographies, and 64 are upper-income geographies.

The 2000 U.S. Census reported the total population of the AA at 873,341. Within the AA, there are 324,940 households and 226,024 families. There are 334,632 housing units, of which, 67% are owner-occupied, 30% are rental-occupied, and 3% are vacant housing units. Approximately .38% of owner-occupied housing is located in low-income geographies, 14% in moderate-income geographies, 44% in middle-income geographies, and 41% in upper-income geographies. The median housing cost is \$230,387.

The 2000 median income for this AA was \$79,252, and the 2008 HUD updated median family income is \$101,100. Approximately 18% of families are low-income, 18% are moderate-income, 22% are middle-income, and 42% are upper-income. There are 5% of households below the poverty level.

According to the 2008 business demographics, there are a total of 87,644 businesses in the AA. Approximately 69% of the businesses reporting have revenues less than \$1 million, 5% have revenues over \$1 million, and the revenue was not reported for 26% of the businesses. Approximately .38% of businesses are located in low-income geographies, 23% in moderate-income geographies, 41% in middle-income geographies, and 36% in upper-income geographies.

Two branches and one ATM are located within this AA. One branch and the ATM are located in a moderate-income CT, and one branch is located in an upper-income CT. According to the June 30, 2008 FDIC Summary of Deposit Market Share report, CBNA's deposit market share within the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA is .09%, ranking CBNA 57 out of 102 institutions in the MSA. CBNA's primary competitors in the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA are: E\*Trade (2 offices, 20.12% market share), Wachovia Bank, NA (149 offices, 12.77% market share), Capital One, NA (1 office, 9.67% market share), Bank of America, NA (179 offices, 9.67% market share), and SunTrust Bank (182 offices, 7.74% market share). CBNA's deposit market share within Montgomery County is 0.53%, ranking CBNA 17 out of 36 institutions in Montgomery County.

The current local economy is characterized as diversified and stable. Key sectors driving the economy continue to be the federal government, information technology, life sciences. Some of the major employers in Montgomery County are: National Institutes of Health, Adventist Healthcare, Food and Drug Administration, Lockheed Martin Corp., and National Naval Medical Command.

According to the January 2009 Bureau of Labor Statistics data, the unemployment rate for the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA is 5.8%. The unemployment rate for the Bethesda-Frederick-Gaithersburg, MD is 4.8%. The unemployment rate for Montgomery County was 4.6%, and the unemployment rate for the state of Maryland was 6.7%. The national unemployment rate was 7.6% as of January 2009.

#### **The Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894**

The bank's second AA is a portion of the Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894. The Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894 AA is comprised of the District of Columbia, Calvert, Charles, and Prince George's Counties in Maryland, Arlington, Clarke, Fairfax, Fauquier, Loudoun, Prince William, Spotsylvania, Stafford, Warren, Alexandria City, Fairfax City, Falls Church City, Fredericksburg City, Manassas City, and Manassas Park City Counties in Virginia, and Jefferson County in West Virginia.

CBNA designated all of the census tracts in the District of Columbia, Prince George's County in Maryland, and Arlington, Fairfax, Alexandria City, Fairfax City, and Falls Church City counties in Virginia as its AA. CBNA could not reasonably service the other counties; therefore, they were excluded from the bank's AA. CBNA's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Below is a summary of demographic information for this AA:

Demographic Information for MD 47894 – Washington- Arlington- Alexandria DC/VA/MD/WV						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	615	11.22	27.32	29.27	30.89	1.30
Population by Geography	2,692,934	8.01	25.85	31.76	34.17	0.21
Owner-Occupied Housing by Geography	597,626	2.97	17.86	35.29	43.88	0.00
Business by Geography	255,688	6.41	18.12	31.60	41.31	2.56
Farms by Geography	2,291	2.66	13.36	41.03	42.69	0.26
Family Distribution by Income Level	644,425	21.47	17.06	20.55	40.92	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	248,324	15.52	40.14	29.29	15.04	0.00
Median Family Income		71,100	Median Housing Value		189,321	
HUD Adjusted Median Family Income for 2008		92,600	Unemployment Rate (2000		5.8%	
Households Below Poverty Level		8%	US Census)			

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 US Census and 2008 HUD updated MFI; Unemployment Rate – Jan 2009 Bureau of Labor Statistics

Of the 615 census tracts, 69 are low-income geographies, 168 are moderate-income geographies, 180 are middle-income geographies, 190 are upper-income geographies, and 8 have not been assigned an income classification.

The 2000 U.S. Census reported the total population of the AA at 2,692,934. Within the AA, there are 1,047,446 households and 644,425 families. There are 1,104,240 housing units, of which, 54% are owner-occupied, 41% are rental-occupied, and 5% are vacant housing units. Approximately 3% of owner-occupied housing is located in low-income geographies, 18% in moderate-income geographies, 35% in middle-income geographies, and 44% in upper-income geographies. The median housing cost is \$189,321.

The 2000 median income was \$71,100, and the 2008 HUD updated median family income is \$92,600. Approximately 21% of the families are low-income, 17% are moderate-income, 21% are middle-income, and 41% are upper-income. Approximately 8% of households are below the poverty level.

According to the 2008 business demographics, there are a total of 255,688 businesses

in the AA. Approximately 67% of the businesses reporting have revenues less than \$1 million, approximately 6% have revenues greater than \$1 million, and the revenue was not reported for approximately 28% of the businesses. Approximately 6% of businesses are located in low-income geographies, 18% are located in moderate-income geographies, 32% are located in middle-income geographies, and 41% are located in upper-income geographies.

There is one full service branch that provides services in this AA. The branch offers a full line of traditional banking products and services and is open weekdays from 9:00 AM until 3:00 PM and until 5:00 PM on Friday. There is also a full service automated teller machine (ATM) at this branch.

According to the June 30, 2008 FDIC Summary of Deposit Market Share report, CBNA's deposit market share within the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA is .09%, ranking CBNA 57 out of 102 institutions in the MSA. CBNA's primary competitors in the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA are: E\*Trade (two offices, 20.12% market share), Wachovia Bank, NA (149 offices, 12.77% market share), Capital One, NA (one office, 9.67% market share), Bank of America, NA (179 offices, 9.67% market share), and SunTrust Bank (182 offices, 7.74% market share).

The current local economy is characterized as diversified and relatively stable. This is one of the few areas in the nation that has not fallen into recession. Federal government hiring is driving growth in numerous industries, including business and professional and information services. The area's housing market is entering its third year of correction, forcing further job cuts in construction. Key sectors driving the economy continue to be the federal government, technology, construction, international business, and hospitality. Some of the major employers in the Washington DC area include: the U. S. Government (both civilian and military), Lockheed Martin, Corp., Northrup Grumman, and SAIC.

According to the January 2009 Bureau of Labor Statistics data, the unemployment rate for the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA was 5.8%. The unemployment rate for the District of Columbia was 9.6%, the unemployment rate for the state of Maryland was 6.7%, and the unemployment rate for the state of Virginia was 6.7%. The national unemployment rate was 7.6% as of January 2009.

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

CBNA's performance under the Lending Test is "Satisfactory". CBNA's quarterly average net loan-to-deposit ratio is more than reasonable. A majority of loans originated were inside the bank's combined AA. The bank's distribution of loans represents a reasonable penetration among businesses of different sizes. The bank's distribution of loans represents a reasonable dispersion throughout census tracts of different income levels. All criteria of the Lending Test are documented below.

## LENDING TEST

### Loan-to-Deposit Ratio

CBNA's quarterly average net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the AA. CBNA's loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank's quarterly average net loan-to-deposit ratio over the twenty-two quarters since the last CRA examination was 91.78%. During this time period, the ratio ranged from a quarterly low of 81.80% to a quarterly high of 109.28%.

CBNA's quarterly average net loan-to-deposit ratio compares favorably with eight similarly sized and situated banks. The quarterly average net loan-to-deposit ratio for the eight similarly sized and situated banks was 86.51% over the same twenty-two quarters. The ratios ranged from a quarterly low of 78.51% to a quarterly high of 98.38% during that time period.

### Lending in Assessment Area

A majority of CBNA's business loans were made within the bank's combined assessment areas, and this meets the standard for satisfactory performance. During the evaluation period, 82.72% of the number and 77.20% of the dollar amount of total business loans were made within the bank's assessment area. The following table details the bank's lending within the AA by number and dollar amount of loans.

<b>Table 1 - Lending in CBNA's AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total*
	#	%	#	%		\$	%	\$	%	
Business	249	82.72	52	17.28	301	81,970,769	77.20	24,208,041	22.80	106,178,810

Source: Business loan data 1/1/2006-12/31/2008

### Lending to Businesses of Different Sizes

The distribution of loans reflects reasonable penetration among businesses of different sizes, and CBNA's record of lending to businesses of different incomes meets the standard for satisfactory performance.

#### **The Bethesda-Frederick-Gaithersburg, MD MD 13644,**

The distribution of loans to businesses of different sizes reflects reasonable penetration among businesses of different sizes and meets the standard for satisfactory performance. Compared to the percentage of AA businesses with gross annual revenues less than or equal to \$1 million, CBNA meets this ratio in terms of the number of loans originated and is lower than this ratio in terms of dollar amount. The

distribution by size of loans shows that approximately 37% of the loans originated were for \$100,000 or less. An additional 29% of loans originated were between \$100,001 and \$250,000.

The following tables, 2A and 2C, detail the bank's performance in lending to businesses of different sizes.

<b>Table 2A - Borrower Distribution of Loans to Businesses for the Bethesda-Frederick-Gaithersburg, MD MD 13644</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total*
% of AA Businesses	68.67%	5.32%	26.01%	100%
% of Bank Loans in AA by #	68.94%	31.06%	0.00%	100%
% of Bank Loans in AA by \$	61.24%	38.76%	0.00%	100%

Source: Business loan data 1/1/2006-12/31/2008

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in the Bethesda-Frederick-Gaithersburg, MD MD 13644</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	49	37.12%	\$2,700,196	5.18%
\$100,001 - \$250,000	38	28.79%	\$6,209,951	11.91%
\$250,001 - \$500,000	21	15.91%	\$8,863,000	17.00%
\$500,001 - \$1,000,000	12	9.09%	\$9,518,911	18.26%
Over \$1,000,000	12	9.09%	\$24,837,200	47.65%

Source: Business loan data 1/1/2006-12/31/2008

**The Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894**

The distribution of loans to businesses of different sizes reflects excellent penetration among businesses of different sizes and exceeds the standard for satisfactory performance. Compared to the percentage of AA businesses with gross annual revenues less than or equal to \$1 million, CBNA exceeds this ratio in terms of the number of loans originated and meets this ratio in terms of dollar volume. The distribution by size of business loans shows that approximately 18% of the loan originations were for \$100,000 or less. An additional 23% of the loans originated were between 100,001 and \$250,000.

The following tables, 2A and 2C, detail the bank's performance in lending to businesses of different sizes.

<b>Table 2A - Borrower Distribution of Loans to Businesses for the Washington-Arlington-Alexandria, DC-VA-MD, WV MD 47894 AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total*

% of AA Businesses	66.66%	5.78%	27.56%	100%
% of Bank Loans in AA by #	69.23%	30.77%	0.00%	100%
% of Bank Loans in AA by \$	66.39%	33.61%	0.00%	100%

Source: Business loan data 1/1/2006-12/31/2008

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in the Washington-Arlington-Alexandria, DC-VA-MD, WV MD 47894 AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	21	17.95%	\$1,278,575	1.86%
\$100,001 - \$250,000	27	23.08%	\$5,148,351	7.48%
\$250,001 - \$500,000	24	20.51%	\$9,369,200	13.62%
\$500,001 - \$1,000,000	28	23.93%	\$21,939,750	31.89%
Over \$1,000,000	17	14.53%	\$31,060,000	45.15%

Source: Business loan data 1/1/2006-12/31/2008

## Geographic Distribution of Loans

The geographic distribution of business loans reflects a reasonable dispersion throughout census tracts of different income levels, and CBNA's performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within CBNA's AAs.

### The Bethesda-Frederick-Gaithersburg, MD MD 13644,

The bank's geographic distribution of business loans reflects reasonable dispersion throughout census tracts of different income levels and meets the standard for satisfactory performance. The percentage of loans made to businesses in low-income geographies exceeds the percentage of businesses in low-income geographies. The percentage of CBNA's business loans made in moderate-income geographies is near to the percentage of businesses that are located in these geographies.

The following table, 3A, 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 for the Bethesda-Frederick-Gaithersburg, MD MD 13644</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 Loans	0.38%	0.76%	23.15%	21.97%	40.77%	26.52%	35.70%	49.24%

Source: Business loan data 1/1/2006-12/31/2008; There were two loans that did not have a census tract number. This came to 1.51% of the sample, which explains why the numbers above do not add up to 100%.

**The Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894**

The bank’s geographic distribution of business loans reflects excellent dispersion throughout census tracts of different income levels and exceeds the standard for satisfactory performance. The percentage of CBNA’s business loans made in low- and moderate- income geographies exceeds the percentage of businesses that are located in these geographies.

The following table, 3A, 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 for the Washington-Arlington-Alexandria, DC-VA-MD, WV MD 47894 AA</b>								
<b>Census Tract *Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>
<b>Business Loans</b>	6.41%	16.24%	18.12%	26.50%	31.60%	31.62%	41.31%	23.93%

Source: Business loan data 1/1/2006-12/31/2008

(\*) There are eight census tracts classified as N/A (not available) within the AA, 2.56% of businesses are located in these N/A tracts, and 1.71% of CBNA’s lending was done in these N/A census tracts. The N/A category consists of geographies that have not been assigned an income classification.

**Responses to Complaints**

CBNA has not received any CRA complaints during this evaluation period.

**Fair Lending or Other Illegal Credit Practices Review**

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