



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

February 13, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Capital Bank of Washington  
Charter Number: 4107

316 Pennsylvania Avenue, S.E.  
Washington, DC 20003

Office of the Comptroller of the Currency

Washington, DC Field Office  
395 E Street SW  
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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's rating include:

- The National Capital Bank of Washington's (NCB) average loan-to-deposit ratio is more than reasonable, and meets the standards for outstanding performance;
- A substantial majority of the NCB's loans were originated within the bank's assessment area;
- NCB's record of lending to businesses of different sizes reflects reasonable penetration;
- The geographic distribution of loans reflects reasonable dispersion of low- and moderate- income census tracts within the assessment area; and
- NCB's responsiveness to community development needs and opportunities in its assessment area is adequate considering the bank's size, financial capacity, and competition for community development opportunities.

## **Scope of Examination**

National Capital Bank of Washington (NCB) was evaluated under the Intermediate Small Bank examination procedures, which assesses the bank's performance under the lending test and the community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to the CD needs in its AA through CD lending, qualified investments, and community development services.

The lending test for NCB covers its performance from January 1, 2009, through December 31, 2011, as this is representative of its lending strategy since the last CRA examination. Based upon the bank's internally prepared loan report, we determined the bank's primary loan product is business lending. The evaluation period for the CD test is from January 1, 2009 through January 31, 2012. CD loans, investments, and services submitted by management were verified to ensure that they met the regulatory definition for community development.

## **Description of Institution**

The National Capital Bank of Washington (NCB), established in 1889, is an independent, intrastate community bank headquartered in the District of Columbia (DC). As of December 31, 2011, NCB had total assets of \$368.5 million and Tier 1 capital of

\$39 million. NCB does not have any subsidiaries or affiliates.

NCB's main office is located on Pennsylvania Avenue near the United States Capitol. In addition to its main office, NCB has a branch located on 44<sup>th</sup> street in Friendship Heights, a community located within the city limits of Washington, DC.. The main office and the Friendship Heights office are open weekdays from 9:00AM until 3:00PM and until 6:00PM on Friday. The main office offers walk-up hours from 8:00AM to 7:00PM Monday through Friday. Both branches are open from 10:00 AM to 1:00PM on Saturday. The main office and the Friendship Heights office have full service Automated Teller Machines (ATMs). In addition to these two full service ATM's, NCB has six limited service ATMs in DC. There were no branches opened or closed, and there were no mergers or acquisitions during the evaluation period.

NCB is a full service community bank offering a standard range of retail 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 business checking accounts, money-market accounts, commercial mortgages, and lines or letters of credit. In addition, NCB offers a full range of investment products and services.

As of December 31, 2011, NCB reported net loans and leases of \$257 million or 70 percent of total assets. The loan portfolio is comprised of: 84 percent real estate loans, 14 percent commercial and industrial loans, and 2 percent consumer loans. Based on an internally prepared loan report, NCB's primary lending activity was business lending. Competition is strong and includes local community banks and branches of larger regional and national banks. NCB's main competitors continue to be: E\*Trade Bank, Capital One Bank, Wells Fargo Bank, and Bank of America.

There are no financial or legal impediments hindering NCB's ability to help meet the credit needs of the communities it serves.

NCB's last Public Evaluation (PE), dated January 6, 2009, was rated Satisfactory.

## Description of Assessment Area(S)

NCB has designated an assessment area that includes eight counties within the District of Columbia, Virginia, and Maryland. All of the designated counties are within the Washington-Arlington-Alexandria, DC-VA-MS-WV MSA 47900. Arlington, Fairfax, and Prince George's counties; the District of Columbia; and Alexandria, Fairfax, and Falls Church Cities are located within the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan District (MD) and Montgomery County is located within the Bethesda-Frederick-Gaithersburg, MD Metropolitan District. Since the assessment area contains counties that fall in two different Metropolitan Divisions, they were analyzed separately. However, more emphasis was placed on the Washington-Arlington-Alexandria, DC-VA-MD-WV MD because all of the bank's branches are in this assessment area, and the majority of the bank's lending was within this assessment area.

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

NCB's primary 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. NCB 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. NCB could not reasonably service the other counties; therefore, they were excluded from the AA.

NCB designated all 615 census tracts in the Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894 AA. 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:

<b>Demographic Information for the Washington-Arlington-Alexandria, DC-VA-MD, WV MD 47894 AA</b>						
	#	% Low	% Moderate	% Middle	% Upper	N/A*
Geographies (Census Tracts)	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
Businesses 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	7.27	24.52	31.96	36.24	0.01
Household Distribution by Income Level	1,047,446	7.71	26.45	31.45	34.39	0.01
Census Median Family Income (MFI)	76,839	Median Housing Value		189,321		
HUD-Adjusted MFI: 2008	100,800	Unemployment Rate		3.63%		
Families Below the Poverty Level	6.46%					

Source: 2000 U.S. Census Data; 2009 HUD updated MFI

\*The N/A Category consists of geographies that have not been assigned an income classification.

Of the 615 census tracts in the AA, 69 or 11.22 percent are low-income geographies, 168 or 27.32 percent are moderate-income geographies, 180 or 29.27 percent are middle-income geographies, and 190 or 30.89 percent are upper-income geographies. The AA also contains 8 census tracts that have not received an income level classification, representing only 1.30 percent of the AA.

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 334,632 housing units, of which, 54 percent are owner-occupied, 41 percent are rental-occupied, and 5 percent are vacant housing units. Approximately 2.97 percent of owner-occupied housing is located in low-income geographies, 17.86 percent in moderate-income geographies, 35.29 percent in middle-income geographies, and 43.88 percent in upper-income geographies. The median housing value is \$189,321.

According to the 2009 business demographics, there are a total of 255,688 businesses in the AA. Approximately 75 percent of the businesses reporting have revenues less than \$1 million, approximately 5 percent have revenues greater than \$1 million, and revenue was not reported for approximately 20 percent of the businesses.

Approximately 6 percent of businesses are located in low-income geographies, 18 percent are located in moderate-income geographies, 32 percent are located in middle-income geographies, and 41 percent are located in upper-income geographies.

According to the June 30, 2011 FDIC Summary of Deposit Market Share report, NCB's deposit market share within the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA is 0.17 percent, ranking NCB 36 out of 102 institutions in the AA. NCB's primary competitors are: E\*Trade (2 offices, 18.11 percent market share), Capital One (209 offices, 13.19 percent market share), Wells Fargo Bank (152 offices, 11.82 percent market share), Bank of America (180 offices, 11.29 percent market share), and Suntrust

Bank (181 offices, 9.06 percent market share).

Major employers and business sectors in this AA 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.

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

The bank's second 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.

NCB designated all 177 census tracts in Montgomery County as its AA. Even though there are no branches or ATMs in Montgomery County, this county is part of the AA because NCB has customers who work in the District of Columbia and utilize NCB's branches and ATMs, but reside and/or operate businesses in Montgomery County. Frederick County was excluded because NCB cannot 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:

<b>Demographic Information for the Bethesda-Frederick-Gaithersburg, MD MD 13644</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	177	1.13	23.16	39.55	36.16
Population by Geography	873,341	0.97	23.03	42.00	34.00
Owner-Occupied Housing by Geography	223,008	0.38	14.09	44.17	41.36
Businesses by Geography	94,952	0.39	22.66	40.56	36.39
Farms by Geography	1,498	0.40	15.49	45.59	38.52
Family Distribution by Income Level	226,024	0.83	20.85	41.53	36.79
Household Distribution by Income Level	324,940	0.86	23.58	42.76	32.80
Census Median Family Income (MFI)		90,315	Median Housing Value		230,387
HUD-Adjusted MFI: 2008		108,800	Unemployment Rate		2.23%
Families Below the Poverty Level		3.73%			

Source: 2000 U.S. Census Data; 2009 HUD updated MFI

Of the 177 census tracts in Montgomery County, 2 or 1.13 percent are low-income geographies, 41 or 23.16 percent are moderate-income geographies, 70 or 39.55 percent are middle-income geographies, and 64 or 36.16 percent 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 percent are owner-occupied, 30 percent are rental-occupied, and 3

percent are vacant housing units. Approximately 0.38 percent of owner-occupied housing is located in low-income geographies, 14 percent in moderate-income geographies, 44 percent in middle-income geographies, and 41 percent in upper-income geographies. The median housing cost is \$230,387.

According to the 2009 business demographics, there are 94,952 businesses in the AA. Approximately 79 percent of the businesses report having revenues less than \$1 million, approximately 5 percent have revenues over \$1 million, and the revenue was not reported for approximately 16 percent of the businesses. Approximately .39 percent of businesses are located in low-income geographies, 23 percent in moderate-income geographies, 41 percent in middle-income geographies, and 36 percent in upper-income geographies.

Montgomery County is in close proximity to the nation's capital, and is the home for many federal and advanced technology jobs. There are over 200 biotech companies, employing more than 100,000 workers, within the county along with 19 federal research and regulatory agencies. Montgomery County has the largest number of entrepreneurs than any other jurisdiction in the country and has the largest number of women owned businesses in Maryland.

## Conclusions with Respect to Performance Tests

### LENDING TEST

NCB's performance under the lending test is "Satisfactory". The loan-to-deposit ratio is more than reasonable. A majority of NCB's primary loan product, business lending, is originated within the combined AA. The record of lending to businesses of different sizes reflects reasonable penetration. The geographic distribution of loans reflects reasonable dispersion of Low- and Moderate- Income (LMI) census tract within the AA.

#### Loan-to-Deposit Ratio

**NCB's quarterly average net loan-to-deposit ratio is more than reasonable and meets the standards for outstanding performance.** The bank's quarterly average loan-to deposit (LTD) ratio over the fourteen quarters since the previous CRA examination was 92.32 percent. During this fourteen-quarter period, this ratio ranged from a quarterly low of 82.39 percent to a quarterly high of 100.86 percent. NCB's quarterly average net LTD ratio compared favorably with other national banks of similar size. The quarterly average net LTD ratio for national institutions of similar size was 80.71 percent over the same fourteen quarters. The ratios ranged from a quarterly low of 75.11 percent to a quarterly high of 87.40 percent during that period.

#### Lending in Assessment Area

**NCB's lending in the AA is outstanding.** The following table sets forth the percentage of the bank's business lending inside and outside its AA for the review period:

Table 1 - Lending in NCB's AA										
Loan Type	Number of Loans				Total	Dollars of Loans(000)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Business	264	92.96	20	7.40	284	\$198,094,	95.04	\$10,336	4.96	\$208,430

Source: Business loan data 1/1/2009-12/31/2011

NCB made a substantial majority of business loans within their AA, which meets the standards for outstanding performance. Throughout the evaluation period, the bank originated 264 loans or 92.96 percent of the number of total business loans within the AA. Additionally, the bank originated 95.04 percent of the dollar volume of loans within the AA.

### Lending to Businesses of Different Sizes

The distribution of loans, in both metropolitan districts, reflects reasonable penetration and meets the standards for satisfactory performance. The following charts discuss the bank's performance in each metropolitan district individually:

Table 2A - Borrower Distribution of Loans to Businesses for the Washington-Arlington-Alexandria, DC-VA-MD, WV MD 47894 AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.10%	5.37%	19.53%	100%
% of Bank Loans in AA by #	55.86%	44.14%	0.00%	100%
% of Bank Loans in AA by \$	50.75%	49.25%	0.00%	100%

Source: Business loan data 1/1/2009-12/31/2011

Table 2B - Borrower Distribution of Loans to Businesses for the Bethesda-Frederick-Gaithersburg, MD MD 13644				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	78.74%	4.98%	16.27%	100%
% of Bank Loans in AA by #	54.76%	45.24%	0.00%	100%
% of Bank Loans in AA by \$	61.80%	28.20%	0.00%	100%

Source: Business loan data 1/1/2009-12/31/2011

The distribution of loans to businesses of different sizes in the individual metropolitan district reflects reasonable penetration among businesses of different sizes. NCB's record of lending meets the standard for satisfactory performance. Compared to the percentage of both AA businesses with gross annual revenues less than or equal to \$1 million, NCB's performance is lower in terms of the number of loans and dollar volume originated. Their performance in both areas is considered reasonable when taking into account the strong competition from larger financial institutions in the AA. Additionally, approximately 56 percent and 55 percent, respectively, of the business loan originations (by number) were for loans of \$100,000 or less, which is a good indication that business lending is primarily to small businesses.

**Geographic Distribution of Loans**

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

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

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout census tracts of different income levels. The percentage of NCB’s business loans made in low-income geographies exceeds the percentage of businesses that are located in these geographies, and exceeds the standards for satisfactory performance. The percentage of business loans NCB made in moderate-income geographies is significantly lower than the percentage of businesses that are located in these geographies and fell below the standards for satisfactory performance. However, considering the level of competition NCB faces from larger institutions within the AA, the geographic distribution meets the standards for satisfactory performance.

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 for the Washington-Arlington-Alexandria, DC-VA-MD, WV MD 47894 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 Loans	6.41%	9.91%	18.12%	3.60%	31.60%	8.56%	41.31%	77.93%

Source: Business loan data 1/1/2009-12/31/2011

(\*) There are eight census tracts classified as N/A within the AA, the NA category consists of geographies that have not been assigned an income classification.

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

The bank’s geographic distribution of business loans reflects poor dispersion throughout census tracts of different income levels, and does not meet the standard for satisfactory performance. NCB did not originate or purchase loans to businesses located in low-income geographies. However, there were very limited opportunities to lend to businesses in low-income geographies because only 0.39 percent of businesses were located in low-income geographies. The percentage of NCB’s business loans made in moderate-income geographies is significantly lower than the percentage of businesses that are located in these geographies. The majority of the bank’s lending in this assessment area originated in middle- and upper-income areas, which can be reasonably served through the Friendship Heights branch and ATM located on Wisconsin Avenue. However, servicing the low- and moderate-income areas would be

challenging given the locations of their current branch and ATM network.

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 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	0.39%	0.00%	22.66%	1.89%	40.56%	60.38%	36.39%	37.74%

Source: Business loan data 1/1/2009-12/31/2011

**Responses to Complaints**

No complaints concerning NCB’s performance in meeting the credit needs of the AA have been received since the preceding evaluation.

**COMMUNITY DEVELOPMENT TEST**

**The Community Development test is rated satisfactory.** NCB’s community development activities in their assessment areas demonstrate satisfactory responsiveness to the community development needs. On a combined basis, the bank provided a total of \$9.7 million in community development loans and \$202 thousand in qualified investments, grants, and donations to help meet community development needs. Bank officers also provided financial expertise to seven community development organizations serving the AA, serving roles including: board members, executive committee members, and treasurer.

**Number and Amount of Community Development Loans**

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

The bank originated 13 community development loans in its assessment area, throughout the evaluation period, totaling \$6.9 million. The majority of the community development loans were made to small businesses and community development organizations, which assisted in creating new jobs or retaining jobs within the assessment area.

The following table details the bank’s annual Community Development lending Washington-Arlington-Alexandria, DC-VA-MD-WV MD 47894.

<b>CD SB Lending January 1, 2009 through</b>
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<b>December 31, 2011</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Total</b>
<b># Loans</b>	5	4	4	13
<b>\$ Loans</b>	\$1,900,000	\$1,940,000	\$3,135,000	\$6,975,000

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

The bank originated 7 community development loans in its assessment area throughout the evaluation period totaling \$2.7 million. These seven community development loans were made to a small business, in which loan proceeds assisted in retaining jobs within the assessment area.

The following table details the bank’s annual Community Development lending within the Bethesda-Frederick-Gaithersburg, MD MD 13644.

<b>CD SB Lending January 1, 2009 through December 31, 2011</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Total</b>
<b># Loans</b>	1	2	4	7
<b>\$ Loans</b>	\$250,000	\$850,000	\$1,618,279	\$2,718,279

**Number and Amount of Qualified Investments**

During the evaluation period, NCB made grants and donations totaling \$202,500 to benefit fifteen different community groups in the AA. These grants and donations assist these organizations in providing affordable housing, educational, and community services to low- and moderate-income individuals and families within the AA.

NCB made no qualifying investments during the evaluation period. Investment opportunities are limited in the assessment areas and are hard to come by given the bank’s size and competition from the larger institutions.

**Extent to Which the Bank Provides Community Development Services**

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

NCB’s service delivery systems are accessible to geographies and individuals of different income levels. No branches have been opened or closed since the last CRA evaluation. Branch and ATM locations are in upper-income geographies; however, are in close proximity to the low- and moderate-income geographies.

Throughout the evaluation period, bank employees and officers provided financial and technical expertise to seven qualified community development organizations. Bank personnel have served on Boards, led committees, and held positions such as treasurer and events coordinator. The bank has maintained long-standing relationships with these community development organizations.

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

There were no community development services in this AA. This portion of the assessment area is a challenge to serve with community development activities considering the location of NCB's District of Columbia branches.

**Responsiveness to Community Development Needs**

The bank's community development activities, as a whole, demonstrate satisfactory responsiveness to the community development needs of its assessment area, in particular when considering the bank's capacity, performance context, and the competition for community development opportunities in the assessment area.

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

No violations of the substantive provisions of the laws and regulations prohibiting discrimination or other illegal credit practices were identified through the evaluation of compliance with consumer laws and regulations during the most recent comprehensive examination, which commenced October 12, 2010.