



## **PUBLIC DISCLOSURE**

August 05, 2013

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

Bay-Vanguard Federal Savings Bank  
Charter Number 708386

7114 N Point Rd  
Baltimore, MD 21219-1220

Office of the Comptroller of the Currency

400 7th Street S.W.  
Washington, DC 20219

**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 the institution's rating include:

- The institution's loan-to-deposit ratio is satisfactory.
- A substantial majority of the bank's loans were originated within the bank's designated assessment area (AA).
- The borrower distribution reflects a reasonable penetration and satisfactory performance.
- The geographic distribution of loans reflects a reasonable dispersion and satisfactory performance.

**SCOPE OF EXAMINATION**

Bay-Vanguard FSB (Bay-Vanguard) was evaluated using Small Bank examination procedures. These procedures utilize the performance lending test to evaluate a bank's record of helping to meet the credit needs of its AA. The lending test focused on loan-to-deposit ratios, lending within the AA, geographic distribution of loans and lending to borrowers of different incomes.

Community Reinvestment Act (CRA) activities at Bay-Vanguard were completed using full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2010 through December 31, 2011. Residential mortgage loans were determined to be the bank's primary loan product and were reviewed as part of this examination.

In order to evaluate Bay-Vanguard's record of originating residential mortgage loans, we analyzed loan data Bay-Vanguard collected and reported in accordance with the Home Mortgage Disclosure Act (HMDA) requirements. In order to ensure the reliability of HMDA loan data, we performed a data integrity examination during the first quarter of 2013. In conjunction with the data integrity examination, we evaluated Bay-Vanguard's processes to ensure the accuracy of collected HMDA data and tested a sample of Bay-Vanguard's reported HMDA loans. Specifically, we tested the accuracy of Bay-Vanguard's HMDA loan data by comparing it against Bay-Vanguard's loan file documentation. The data integrity examination revealed that Bay-Vanguard's publicly available HMDA loan data could be relied on for the purposes of this CRA evaluation.

**DESCRIPTION OF INSTITUTION**

Bay-Vanguard is a federal mutual savings bank, owned by Bay-Vanguard Mutual Holding Company headquartered in Sparrows Point, Maryland. In addition to the bank's main office located in Baltimore County at 7114 North Point Road, Sparrows Point,

Maryland, they have four additional branches located in Baltimore City (1), Baltimore County (1), and Anne Arundel County (2). According to the Federal Financial Institutions Examination Council geocoding system, the main office is located in a middle-income census tract. The Baltimore City branch is located in a moderate-income census tract. The other Baltimore County branch is also located in a middle-income census tract and the two Anne Arundel County branches are located in an upper-income and middle-income census tracts. The branch hours of operations are typically Monday through Thursday, 9 AM – 4:30 PM, Friday 9 AM – 6 PM and Saturday 9 AM – 1 PM. One of the Anne Arundel County branches is not open on Saturdays. Automated Teller Machines are available at all locations with the exception of one of the Baltimore County branches. Drive-thru services are also available at all locations except the Baltimore City branch for the same hours of operations.

In September 2011, the bank consolidated two branches into one, thereby downsizing to four branches, but was still able to continue to provide service to the community. In May 2013, the bank acquired Vigilant Federal Savings Bank and in turn increased the number of branches by one, back to a total of five. The Vigilant Federal Savings Bank branch, now Bay-Vanguard, is located in Essex, Baltimore County, Maryland. This is the only significant change to the corporate structure since the last CRA examination, which occurred after the review period. We did not include the new branch in our evaluation as it was acquired outside the evaluation period.

Bay-Vanguard offers standard traditional loan and deposit products for both personal and commercial customers. The bank's website, [www.bayvanguard.com](http://www.bayvanguard.com), provides additional information such as specific product and service offerings and rates.

As of December 31, 2011, total assets were \$147 million, total deposits were \$130 million and the bank was well-capitalized. The loan portfolio totaled \$114 million or 77.4% of total assets.

<b>Assets Composition for Bay-Vanguard</b>		
<b>Balance Sheet Component</b>	<b>Balance Sheet Amount</b>	<b>% of Total Assets</b>
<b>Loans</b>		
Residential Mortgage Loans	92,940,000	63.1%
Non-Residential Mortgage Loans	10,452,000	7.1%
Commercial Nonmortgage Loans	276,000	0.19%
Consumer Loans	10,284,000	7.0%
<b>Total</b>	<b>113,952,000</b>	<b>77.4%</b>

Source: Bay-Vanguard FSB 2011 TFR Schedule SC

There were no financial or legal impediments limiting the bank's ability to meet community credit needs.

At the last CRA examination, dated March 10, 2008, Bay-Vanguard was assigned a CRA rating of “Satisfactory”.

Refer to the bank’s CRA Public File for additional Information not included in this section.

## DESCRIPTION OF ASSESSMENT AREA(S)

Bay-Vanguard has one AA in which all of its branches and ATMs are located. The AA is located in Baltimore-Towson, MD Metropolitan Statistical Area (MSA) and consists of 499 census tracts. The bank’s AA has been defined as Baltimore City, Baltimore County and Anne Arundel County, all of which are in the State of Maryland. The table below shows the demographic characteristics of the AA.

Demographic Information for Assessment Area (AA)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Census Tracts	499	15.63	25.25	37.27	20.84	1.00
Population	1,895,102	11.90	24.63	38.08	24.85	0.54
Owner-Occupied Housing	467,375	6.27	20.59	41.37	31.77	0.00
Family Distribution by Income Level	478,077	23.81	18.84	22.09	35.26	0.00
Distribution of Low and Moderate Families in AA	203,888	20.13	34.00	33.50	12.38	0.00
Median Family Income (MFI) HUD Adjusted MFI for 2011 HUD Adjusted MFI for 2010 Households Below Poverty Level		59,301 84,500 82,200 11%	Median Housing Value Unemployment Rate (2012 Bureau of Labor Statistics)		120,150 7.5%	

Source: 2000 US Census and 2010 and 2011 HUD updated MFI

Economic indicators show that the Maryland economy is improving. However, for the review period, the economy was still recovering from the recent recession. The economic recovery was expected to gain momentum toward the end of 2010 into 2011 and was expected to take several years for the labor market to reach full employment. The duration of unemployment rates remained high, thereby impacting the pace of the economic recovery. High unemployment rates negatively impacted retail lending. Financial institutions were impacted by high foreclosure rates, the decline in home values and stalled construction projects. Despite the slow economic recovery, Bay-Vanguard continued to lend within its AA and managed to acquire another financial institution.

In 2010, Bay-Vanguard’s AA contained over 124,000 non-farm businesses, which grew to over 204,000 in 2011. Of the non-farm businesses located in the AA, there were over 800 FDIC insured branching facilities in 2010 and 2011. The major competitors in the AA for Bay-Vanguard were M&T, Bank of America and PNC Bank. According to a December 2012 FDIC Community Bank Study between 2010 and 2011, the deposit market share of community banks declined while deposit share rose for non-community

banks. Even still, community banks continued to have a dominant presence in non-metropolitan areas.

In assessing the bank's performance, we contacted a community service organization and reviewed other community contact data to gain a better understanding of the community needs. Traditional banking services and affordable homes are a primary concern for the AA. According to the community contact and data, there are opportunities for local financial institutions to participate in the community beyond monetary contributions. The contact stressed that financial literacy and educational training programs administered by bank staff would be beneficial to the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Lending Test

Bay-Vanguard's overall performance under the lending test is satisfactory. Bay-Vanguard's loan-to-deposit ratio is satisfactory. A substantial majority of Bay-Vanguard's home mortgage loans were originated within the AA. Bay-Vanguard's record of lending to borrowers of different incomes is considered satisfactory. The geographic distribution of loans in the AA is reasonable and performance is considered satisfactory.

### Loan-to-Deposit Ratio

Bay-Vanguard's loan-to-deposit ratio is satisfactory. The bank's average loan-to-deposit ratio for the review period is 79.42%, ranging from a high of 82.53% to a low of 77.56%. This is in-line with the 80.07% average loan-to-deposit ratio for similarly situated banks during the same period.

### Lending in Assessment Area

Bay-Vanguard's lending in their AA is outstanding. A substantial majority of the home mortgage loans originated during the evaluation period were within the AA. An analysis of the loan sample data disclosed that 90.96% (by number) and 89.05 (by dollar) of loans were originated in the AA.

Loans Originated In/Out of the Assessment Area for Bay-Vanguard 2010 and 2011						
Loan Type	% Inside Area		% Outside Area		Total	
	#	\$(000)	#	\$(000)	#	\$(000)
Home Purchase	27	2,169	6	451	33	2,620
Home Improvement	10	2,405	5	685	22	3,090
Refinance	95	10,948	3	771	100	11,719
<b>Total</b>	<b>141</b>	<b>15,522</b>	<b>14</b>	<b>1,907</b>	<b>155</b>	<b>17,429</b>

Source: CRA Wiz 2010 Peer Mortgage Data

## Lending to Borrowers of Different Incomes

Bay-Vanguard's lending to borrowers of different incomes is satisfactory. Borrower distribution reflects reasonable penetration among residential real estate loans.

The level of all home mortgage purchase loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. However, when comparing the affordability of housing in the AA, this performance is reasonable. The median cost of housing in the AA is \$120,150, based on 2000 census data. The HUD updated median family income for 2011 is \$84,500. This means that a low-income person earns less than \$42,250. Households below the poverty level are 11%. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. Additionally, 14% of home purchase applications did not include income information on the HMDA LAR. The level of home mortgage purchase loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. This performance is excellent.

The level of home improvement loans to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The level of home improvement loans to moderate-income families is somewhat lower than the percentage in moderate-income families in the AA. This performance is mitigated by the fact that competition is strong within the AA. The market share of the top lender, a large nationwide bank, is 17.62 percent as compared to the 0.09% market share held by Bay-Vanguard. When considering competition, the bank's performance is reasonable.

The level of home mortgage refinance loans made to both low- and moderate-income borrowers is significantly lower than the percentage of low- and moderate-income families in the AA. This performance is mitigated by the fact that 74.74% of home mortgage refinance loans did not include income information on the HMDA LAR.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans*	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	23.81	18.52	18.84	33.33	22.09	11.11	35.26	14.41
Home Improvement	23.81	10.53	18.84	15.79	22.09	57.89	35.26	15.79
Home Mortgage Refi	23.81	1.05	18.84	4.21	22.09	4.21	35.26	15.79

Source: 2010/2011 HMDA LAR and 2000 US Census

\*NA within each income loan type: 14.81% (Purchase); 0% (Home Improvement); 74.74% (Refinance)

**Geographic Distribution of Loans**

Bay-Vanguard's geographic distribution of loans is satisfactory. The geographic distribution reflects reasonable dispersion in comparison to the geographical distribution of residential mortgage loans within the AA. Our review did not detect any conspicuous or unexplained gaps in the bank's lending patterns.

**Geographic Distribution of Residential Real Estate Loans**

The distribution of home purchase loans to low-income geographies is significantly lower than the percentage of owner occupied housing in the AA and reflects poor dispersion for this category. However, the distribution of home purchase loans to moderate-income geographies is somewhat lower than the level of owner-occupied housing in the AA and reflects reasonable dispersion.

The distribution of home improvement loans to low-income geographies is significantly lower than the percentage of owner occupied housing in the AA and reflects poor dispersion for this category. However, the distribution of moderate-income geographies exceeds the percentage of owner-occupied housing in the AA and reflects excellent dispersion.

The distribution of home refinance loans to low- and moderate-income geographies exceeds the percentage of owner-occupied housing in the AA and reflects excellent dispersion.

<b>Geographic Distribution of Residential Real Estate Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	6.27	0.00	20.59	14.81	41.37	70.37	31.77	14.81
Home Improvement	6.27	0.00	20.59	21.05	41.37	72.52	31.77	5.26
Home Mortgage Refinance	6.27	27.37	20.59	50.53	41.37	16.84	31.77	5.26

**Responses to Complaints**

Bay-Vanguard did not receive any complaints regarding CRA performance during the review 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.