



Public Disclosure

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Community Reinvestment Act Performance Evaluation

**Franklin National Bank of Washington, D.C.
Charter #17899
1722 I (Eye) Street, NW
Washington, D.C. 20006**

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NOTE: 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.

General Information

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon the conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community by evaluating lending practices, investments, and services.

This document is an evaluation of the CRA performance of the **Franklin National Bank of Washington, D.C.**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 23, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in 12 CFR Part 25.

Institution's CRA Rating: Franklin National Bank of Washington, D.C. is rated **Outstanding**. A summary of the primary factors supporting this rating include:

- Virtually all small business loans, or 96%, are made in the assessment area.
- The bank is a leading small business lender in its assessment area, evidenced by a consistently strong volume of lending activity. A significant number of loans are made to businesses with revenues less than \$1 million in loan amounts less than \$1 million.
- The bank generates an excellent level of qualified investments, the majority of which directly benefit children's charities located in low- and moderate-income neighborhoods.
- Bank personnel participate with community organizations that are devoted to the economic betterment of the District of Columbia.
- Over the last two years, the retail delivery system has grown from four to nine branches. Two of the new branches are located in low- and moderate-income census tracts.

The following table indicates the performance level of the **Franklin National Bank of Washington, D.C.** with respect to the lending, investment, and service tests.

Performance Levels	Franklin National Bank of Washington, D.C. Performance Tests		
TEST RESULTS	Lending*	Investment	Service
Outstanding	X	X	
High Satisfactory			X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution and Demographic Profile

Franklin National Bank of Washington, D.C. ("Franklin") is headquartered in Washington, D.C. The bank is a wholly-owned subsidiary of Franklin Bancorporation. The bank has no subsidiaries. In 1997, the holding company created a community development corporation ("CDC") subsidiary, which is known as Franklin Community Development Corporation. The CDC will work with local CDCs and community organizations to finance housing and small business credit needs.

The bank is not a traditional retail-oriented bank. It does not gather deposits from or provide related services to the small depositor. Rather, Franklin's business strategy entails the gathering of deposits from a small group of large depositors whose primary address is a middle- or upper-income census tract, and providing a significant number of business loans principally targeted to small businesses.

As of May 31, 1997, the bank had total deposits of \$328 million, of which a majority are raised from large account relationships. A small share of the large account relationships is raised from low- and moderate-income census tracts in the assessment area, as noted in the table below:

TYPE OF CENSUS TRACT	# INSIDE ASSESS. AREA	DEPOSITS RAISED (\$000s)	# OF DEPOSIT ACCOUNT	FROM # OF TRACTS	% OF TOTAL LARGE DEPOSITS

Low-Income	58	12,424	7	3	5.2%
Moderate-Income	172	12,958	13	7	4.1%

Franklin serves its community from its main office and 5 other full-service branches located in Washington, D.C., 2 in northern Virginia, and 1 in Montgomery County, Maryland. The bank operates 7 proprietary ATMs at 6 branches. Since the last CRA examination, 5 new branches have been opened. The Metro Center branch is located in a low-income census tract, and the U Street branch is located in a moderate-income census tract. No branches have ever been closed. A substantial majority of the loans extended by the bank are in Washington, D.C.

The bank faces strong competition from numerous financial institutions, including community banks, regional banks, finance companies, thrifts, and credit unions. Franklin has no impediments, legal or otherwise, that would hinder its efforts in helping to meet the credit needs of the communities it serves, especially low- and moderate-income neighborhoods.

As of May 31, 1997, total assets, gross loans, and total deposits were \$455 million, \$246 million, and \$328 million, respectively. Approximately 93% of the loan portfolio is business-oriented and 7% is consumer. For the fiscal year ended December 31, 1996, the bank's net loan portfolio grew a strong 43%, or \$69 million.

Description of Assessment Area

Franklin has defined its assessment area as the entire District of Columbia, the Maryland counties of Montgomery and Prince George's, the Virginia counties of Fairfax and Arlington, and the Virginia cities of Alexandria, Falls Church, and Fairfax. The assessment area is located within the Washington Primary Metropolitan Statistical Area ("PMSA") of Washington, D.C.-MD-VA-WV (8840), which is part of the larger Washington-Baltimore Consolidated Metropolitan Statistical Area ("CMSA"). The bank's defined assessment area complies with regulatory requirements, and does not arbitrarily exclude low- or moderate-income census tracts.

Based on the 1990 Census, the area's population was 3.2 million. The 1997 HUD-estimated median family income for the CMSA is \$70,300.

The demographics and income characteristics of the bank's assessment area reflects the following:

FAMILY INCOME CHARACTERISTICS	
Level of Income	Percent
Low	17%
Moderate	17%
Middle	24%
Upper	42%
Total	100%

CENSUS TRACT CHARACTERISTICS		
Tract Type	Number	Percent
Low	58	7%
Moderate	172	21%
Middle	308	38%
Upper	228	28%
Income Not Available	49	6%
Total	815	100%

The bank's primary lending area is Washington, D.C. Major employment is provided by the federal government, colleges, hospitals, service firms, and retail operations. The local economy is stable and unemployment is low (less than 4%). Management and the Board's strategic focus is meeting the credit needs of the small business community.

Credit needs within the bank's assessment area are numerous, including affordable housing and small business. Franklin's strategic business focus is lending to the small business operator. We held discussions with two leaders of local community development corporations, who agreed that small business lending is a continuing credit need within the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

SCOPE OF REVIEW

This review of the bank's performance under the CRA covered the period January 1, 1996 through July 23, 1997. Bank documents reviewed included small business

loans, the Home Mortgage Disclosure Act ("HMDA"), community development loans, investments, contributions, grants, services, deposits, and third party documents.

LENDING TEST

In January 1997, the U.S. Small Business Administration's Office of Advocacy published its third annual report "Small Business Lending In District of Columbia, 1996 Edition." The report is a directory of small business lending, defined as loans less than \$250 thousand, reported by commercial banks in the District of Columbia using June 30, 1996 Consolidated Report of Condition data. The data segments banks by asset size -- less than \$100 million, \$100 to \$500 million, and \$1 to \$10 billion -- and small business lending performance tests. For 1995 and 1996 review periods, **Franklin was rated the number one small business lender in the District of Columbia.** As of June 30, 1996, the report shows Franklin with 644 loans outstanding for \$39.4 million in original borrowings that were less than \$250 thousand. The next most prolific small business lender was the First Union National Bank of Washington, D.C. (a much larger bank in the \$1 to \$10 billion asset class) with 403 loans for \$23.8 million.

Lending Activity

Lending activities and levels are high and reflect excellent efforts to meet assessment area credit needs. The growth of the loan portfolio has been rapid, as evidenced by the **43% growth rate and bookings of \$105 million for fiscal year ended December 31, 1996.** Through May 31, 1997, the bank has booked loans for an additional \$52.8 million. The bank offers a full range of loan products geared to small business credit and deposit needs. For the review period, total loan originations were as follows:

TOTAL LOAN ORIGINATIONS				
LOAN TYPE	# LOANS	% LOANS	\$MILLIONS	% LOANED
Small Business	711	66%	108.3	69%

TOTAL LOAN ORIGINATIONS				
Large Business	20	2%	32.9	21%
HMDA-Reportable	35	3%	3.4	2%
Consumer/Other	309	29%	13.2	8%
TOTAL	1,075	100%	157.8	100%

Assessment Area Concentration

For the review period, the bank originated a strong **96%** of the number and **96%** of the dollars of its *small business loans* within its assessment area, as noted in the following table:

SMALL BUSINESS LOANS				
	# LOANS	% LOANS	\$ THOUSANDS	% LOANED
Inside Assessment Area	684	96%	103,521	96%
Outside Assessment Area	27	4%	4,739	4%
TOTAL	711	100%	108,260	100%

While the bank's strategic focus is not residential real estate, through its affiliation with mortgage brokers, it has originated **100%** of its 35 *HMDA-reportable* loans within its assessment area.

Geographic Distribution of Loans

Franklin's geographic distribution of loans reflects a good penetration throughout the assessment area. As noted in the following chart, Franklin is serving all segments of the assessment area, including low- and moderate-income census tracts. Of all small business loans extended within its assessment area, 25.2% of the number and 26.1% of the dollars have been extended to borrowers located in low- and moderate-income census tracts. Bank lending activity in low- and moderate-income census tracts far exceeds deposits gathered there.

SMALL BUSINESS LOANS -- INSIDE ASSESSMENT AREA				
TRACT TYPE	# LOANS	% LOANS	\$ THOUSANDS	% DOLLARS
Low	54	7.9%	9,715.7	9.4%
Moderate	118	17.3%	17,249.4	16.7%
Middle/ Upper	512	74.8%	76,556.4	73.9%
TOTAL	684	100%	103,521.5	100%

While the bank is not a residential real estate lender, the table below shows the bank has good penetration levels in low- and moderate-income census tracts. Additionally, 26 of the 35 loans represent purchased residential mortgages from brokers with which the bank has created unique financing programs (discussed below under Borrowers' Profile).

HMDA-REPORTABLE LOANS -- INSIDE ASSESSMENT AREA				
TRACT TYPE	# LOANS	% LOANS	\$ THOUSANDS	% DOLLARS
Low	2	6%	106	3%
Moderate	10	28%	976	28%
Middle	14	40%	1,707	50%
Upper	9	26%	649	19%
TOTAL	35	100%	3,438	100%

Borrowers' Profile

For *small business loans* in the assessment area, the bank provides an excellent level of loans to the smallest businesses, as noted in the following table. Over 82% of the bank's small business loans originate for less than \$250 thousand; the average loan size for the 684 loans was low at \$152.4 thousand.

LOAN SIZE (000s)	# OF LOANS	% OF LOANS	\$ LOANED (000s)	\$ LOANED % OF TOTAL
Less than \$100	360	52.6%	13,612.3	13.1%
\$100-\$250	203	29.7%	30,437.1	29.4%
\$250-\$1,000	121	17.7%	59,472.1	57.5%
Total	684	100%	103,521.5	100.0%

For the purchased residential mortgage loans, 25 of 26, or a strong **96%**, were made to borrowers who are considered either low- (8) or moderate-income (17). Those borrowers received over **96%**, or \$2.38 million, of the proceeds.

Responsiveness to Credit Needs of Highly Economically Disadvantaged Geographies and Low-Income Persons, Small Business

Franklin shows an excellent record of serving the credit needs of very small businesses and economically disadvantaged areas. Over the review period, the bank's lending record was strong, as noted by the **172** small business and community development loans extended for **\$26.9** million within its assessment area to borrowers located in low- and moderate-income census tracts. This represents 25% of the number and 26% of the dollars extended by the bank for these types of loans over the review period.

While the bank is not a residential real estate lender, the below market interest rate product aimed at low- and moderate-income borrowers has helped 25 families during the review period.

For small business loans extended inside the assessment area, at least **278** borrowers, or a strong **40.6%** of loans made, reported revenues less than \$1 million.

Community Development Lending Activities

Franklin has a strong record of providing community development loans. The bank made **15** community development loans for **\$7.8 million** over the review period. Those loans are included in the prior sections that discuss small business lending activity within the assessment area.

Product Flexibility

The bank has a good record of product innovation, including meeting the residential mortgage needs of the low- and moderate-income neighborhoods in its assessment area. Examples include the following:

- Providing residential real estate mortgages to low- and moderate-income borrowers at below market rates of interest. In 1994, the Board of Directors committed \$1 million to purchase from two brokers 30 year residential mortgage loans that have been extended to low- and moderate-income borrowers at rates of interest that are 100 basis points below market rates. As of June 12, 1997, the total outstanding balance was \$3.2 million. Over the review period, the bank purchased **26** loans for **\$2.48 million**. Twenty-five of the 26 borrowers are low- or moderate-income.
- Partnering with four CDCs to provide micro-loans to small businesses in low- and moderate-income neighborhoods. These loans provide capital to small businesses and start-ups that would otherwise not qualify for credit under conventional underwriting standards. During the review period, the bank has extended direct loans to these CDCs, which in turn provide credit to small businesses within their communities.

INVESTMENT TEST

Investment and Grant Activity

The bank has an excellent level of qualified community development investments. Management and the board of directors are community leaders in raising funds that are not routinely provided by private investors. For the review period, the bank has qualified investments of **\$1.0 million**.

In 1995, the board approved the bank's fiscal participation as the lead sponsor of the local Franklin National Bank Classic, an annual December holiday college basketball tournament. The bank's grant to the Children's Charities Foundation, a non-profit charitable organization, helps ensure the success of the tournament. During the review period, the tournament raised \$1.021 million that was distributed to 46 local charities that provide education, nutrition counseling and services, health care, recreation, and other necessary benefits for needy and at-risk children, and for the prevention of cruelty to children living in the bank's assessment area. The bank's grants to the Foundation for the two tournaments during the review period have been in excess of **\$525 thousand**.

The bank created and funded **\$250 thousand** for the Franklin Community Development Corp. Project. The mission of the CDC is to promote the development of low- and moderate-income housing through direct limited equity investments. To date, \$79 thousand has been invested in the Marshall Heights Community Development Corporation to construct two homes in the southeast section of D.C. for low- or moderate-income borrowers.

In July 1997, the bank purchased **two 6 month \$100 thousand** certificates of deposit, one in Independence Federal Savings Bank and the other in Industrial Bank, NA. Both financial institutions are located in the District of Columbia, and lend primarily to low- and moderate-income individuals for housing purposes or small businesses.

The bank owns **\$20 thousand** stock in the Neighborhood Economic Development Corporation ("NEDCO"). NEDCO, a subsidiary of the District of Columbia Economic Development Finance Corporation, provides financing and technical expertise to small businesses in D.C. that otherwise may not qualify for conventional financing. The bank's president was a founding member, and a loan officer is seated on the CDC's loan committee.

In July 1997, the bank donated business furniture to a non-profit organization located in southeast D.C. that provides housing and ancillary services to AIDS-diagnosed patients. The original cost of the equipment was **\$5 thousand**.

Responsiveness to Credit and Community Development Needs and Community Development Initiatives

Management and the Board have shown excellent responsiveness to the credit and community economic development needs of its assessment area, as noted in the previous section. The initiatives have been numerous and they have generated substantial investment dollars for a bank of its size in the assessment area. Some are innovative, especially the sponsorship of the basketball tournament, and generally not provided by the private sector.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. As noted previously, the bank has a large assessment area, and derives a substantial majority of deposits from a small number of depositors that reside in middle- and upper-income census tracts. The deposits are then loaned to many small businesses across the assessment area, including low- and moderate-income census tracts.

DISTRIBUTION OF BRANCHES and ATMs
WITHIN ASSESSMENT AREA

Type of Census Tract	Number of Tracts and Percent of Total		Number of Branches and Percent of Total		ATMs
Low	58	7%	1	11%	2
Moderate	172	21%	1	11%	1
Middle	308	38%	1	11%	1
Upper	228	28%	5	56%	4
Income Not Available	49	6%	1	11%	0

Changes in Branch Locations

Since the last examination, the bank has improved the accessibility of its delivery systems by opening 5 full-service branches, 28% of which are located in low- and moderate-income neighborhoods. The Metro Center branch is located in the low-income census tract, and the Lincoln Center U Street branch is located in a moderate-income census tract. The bank also placed 2 ATMs in the Metro Center branch. The bank now has 9 branches in total.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Business hours are reasonable and do not vary in a way that inconveniences certain portions of the assessment area. Lobby hours in the branches located in low- and moderate-income census tracts are the same as the other branches.

Community Development Services

The bank is a leading participant in community development services within its assessment area. Bank personnel, led by President Robert Pincus, participate in a

wide variety of organizations that are focused on affordable housing, community services, activities that promote economic development, and activities that benefit low- and moderate-income neighborhoods in the District of Columbia.

Mr. Pincus' community development activities include:

- director and founding member of the Neighborhood Economic Development Corporation, founded to stimulate the growth of businesses and jobs in D.C.; The Corporation is a subsidiary of the D.C. Economic Development Finance Corporation, a quasi-public corporation funded by the local government and the private sector.
- chairman of the finance committee of Old Anacostia Northern Gateway Development, which is dedicated to revitalizing the economic plight of a neighborhood in Anacostia. This project is associated with the Anacostia Economic Development Corporation, a CDC located in one of the most disadvantaged neighborhoods in Washington, D.C.;
- member of the D.C. Tax Revision Commission, which is dedicated to improving the financial future of the troubled District of Columbia; and
- working with the Martin Luther King, Jr. Center for Non-Violent Social Change. The organization is considering a move to D.C., which would boost local employment levels;

Other bank personnel are involved with many community organizations. They participate as committee members and directors, and provide financial direction, as noted below:

- with Children's Charities Foundation, a non-profit charitable organization that raises funds through the Franklin National Bank Classic, a college holiday basketball tournament, for distribution to many local at-risk children;
- with Community Lodgings, which is devoted to helping low- and moderate-income individuals attain housing and employment;
- with Jubilee Support Alliance, an entity that owns several low-income multifamily housing projects and provides credit counseling to its residents;
- with the Washington Area Community Investment Fund, a community development loan fund that provides below market interest rate financing to low-income applicants;

- with the People's Involvement Corporation, a CDC which provides loans and financial counseling in a moderate-income neighborhood; and

Compliance with Antidiscrimination Laws

During the concurrent fair lending examination, we found no violations of the substantive provisions of the antidiscrimination laws and regulations.

Appendix A - Scope of Examination

Period of Review: January 1, 1996 through July 23, 1997			
Financial Institution	Affiliate Relation		Products Reviewed
Franklin National Bank of Washington, D.C.	N/A		Business loans, residential mortgage loans, community development loans, investments
Affiliate			
Franklin Community Development Corporation	Holding Company Subsidiary		Investments

Assessment Area and Type of Examination			
Assessment Area	Type of Examination	Branches Visited	Other Information
District of Columbia; Montgomery and Prince George's Counties, MD; Fairfax and Arlington Counties, VA.	On-site	One	N/A