



Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

August 22, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Annapolis National Bank
Charter Number 21961
180 Admiral Cochrane Drive - Suite 300
Annapolis, Maryland 21401**

**Office of the Comptroller of the Currency
1025 Connecticut Avenue, NW - Suite 708
Washington, D.C. 20036**

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 safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Annapolis National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 30, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**OUTSTANDING**”.

The primary factors supporting the bank's overall rating include:

- o The loan-to-deposit ratio averaged 76% for the period under review, versus similarly situated financial institutions of 69%.
- o The assessment area contains 75% of the number of loans originated by the bank, representing 64% of the dollars of loans originated.
- o A strong record of lending to small businesses overall, including small business loans under U. S. Small Business Administration and Anne Arundel Economic Development Corporation loan programs.

The following table indicates the performance level of **Annapolis National Bank** with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | ANNAPOLIS NATIONAL BANK PERFORMANCE LEVELS | | |
|--|--|--|--|
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does not meet Standards for Satisfactory Performance |
| Loan to Deposit Ratio | X | | |
| Lending in Assessment Area | | X | |
| Lending to Borrowers of Different Incomes and to Businesses of Different Sizes | X | | |
| Geographic Distribution of Loans | Analysis | not | meaningful. |
| Response to Complaints | No complaints | were received since | the prior examination. |

DESCRIPTION OF INSTITUTION

Annapolis National Bank (ANB) is headquartered in Annapolis, Maryland. The bank is a wholly owned subsidiary of Annapolis National Bancorp, Inc. As of June 30, 1997, total assets were \$111 million, gross loans were \$75 million, and total deposits were \$96 million. ANB is well positioned to help meet the credit needs of their assessment area. As a percentage of gross loans, 43% were commercial and industrial loans, 28% were commercial real estate loans, 13% were construction and land development loans, 10% were 1-4 family residential mortgage loans, 3% were home equity loans, and 3% were consumer loans. The bank offers a full range of loan and deposit services.

ANB serves the community from its five branches and an administrative headquarters in Anne Arundel County and one branch on Kent Island in Queen Anne's County in Maryland. All of the branches are full service and offer extended hours on weekdays, Saturday hours, and proprietary ATM's available 24 hours a day. The Severna Park office was opened in September, 1996. There is strong competition from other community banks, larger regional banks, thrifts, credit unions and other non financial institutions which have many offices in the area. ANB has no impediments, legal or otherwise, which would hinder their efforts in helping to meet the credit needs of the bank's assessment area.

DESCRIPTION OF ASSESSMENT AREA

ANB has defined one contiguous assessment area located in Maryland within MSA 0720. Their assessment area consists of all the census tracts in Anne Arundel County and five census tracts (8106 - 8110 inclusive) in Queen Anne's County. ANB's assessment area complies with CRA and does not arbitrarily exclude low- or moderate-income census tracts. Based on 1990 Census information, the area population is approximately 447,000 with a median family income of \$42,206. The demographics and characteristics of the bank's assessment area reflects:

| <u>Census Tract Characteristics</u> | | | <u>Family Income Characteristics</u> | |
|-------------------------------------|---------------|----------------|--------------------------------------|----------------|
| <u>Tract Type</u> | <u>Number</u> | <u>Percent</u> | <u>Level of Income</u> | <u>Percent</u> |
| Low | 0 | 0 % | Low Income | 11 % |
| Moderate | 4 | 5 % | Moderate Income | 15 % |
| Middle | 45 | 52 % | Middle Income | 25 % |
| Upper | 35 | 40 % | Upper Income | 49 % |
| NA | 3 | 3 % | Total | 100 % |
| Total | 87 | 100 % | | |

The assessment area contains in excess of 11,000 employers, most of which are small businesses. While the area economy is considered stable, the employment downsizing trend is continuing. The major employment sectors are the government (local, state and federal) and the retail trade and service sector. The largest private employers are Northrop Grumman, US Air, Baltimore Gas & Electric, ARINC, International Paper, Computer Sciences Corporation, Lockheed Martin, ITT Research Institute, and Davco/Wendy's. Management and the Board continue to identify the primary credit need within the bank's assessment area as commercial and commercial real estate lending, especially to small businesses which is the bank's primary focus.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-To-Deposit Ratio

ANB's loan-to-deposit ratio is more than reasonable, indicating a strong commitment in helping meet the credit needs of the bank's assessment area. We reviewed the recent eight quarters since the last CRA examination. Our results reflect ANB's loan-to-deposit ratio averaged 76% during this period. This ratio exceeds the 69% average of similarly situated financial institutions during the same time period. As of March 31, 1997, ANB's loan-to-deposit ratio was 82%.

Lending In Assessment Area

A majority of all loan originations are within ANB's assessment area. We tested and relied on management's analysis of loans originated. The assessment area contains 75% of the number of loans originated by the bank, representing 64% of the dollars of loans originated.

Lending To Businesses of Different Sizes And To Borrowers of Different Incomes

ANB has continued with their excellent record of lending to small businesses. We tested and relied on management's Call Report as of June 30, 1997. ANB's record of loan originations during the current review period reflects 67% of commercial and commercial real estate loans are to small businesses with annual revenues of \$1 million or less. Additionally, ANB's loans to small businesses reflects 100% of the commercial and commercial real estate loans by loan size are less than \$1 million as follows:

ANB's Commercial Loans Originated To Small Businesses

| <u>Loan Size</u> | <u># of Loans</u> | <u>% of Loans</u> | <u>\$(000's)</u> | <u>% of Dollars</u> |
|-------------------|-------------------|-------------------|------------------|---------------------|
| Less than \$100M | 318 | 73 % | 10,282 | 31 % |
| \$100M - \$250M | 73 | 17 % | 9,109 | 28 % |
| \$250M - \$1MM | 46 | 10 % | 13,393 | 41 % |
| Total | 437 | 100 % | 32,784 | 100 % |
| Average Loan Size | | | 75 | |

ANB's Commercial Real Estate Loans Originated To Small Businesses

| <u>Loan Size</u> | <u># of Loans</u> | <u>% of Loans</u> | <u>\$(000's)</u> | <u>% of Dollars</u> |
|-------------------|-------------------|-------------------|------------------|---------------------|
| Less than \$100M | 9 | 13 % | 535 | 3 % |
| \$100M - \$250M | 26 | 37 % | 3,501 | 17 % |
| \$250M - \$1MM | 35 | 50 % | 16,837 | 80 % |
| Total | 70 | 100 % | 20,873 | 100 % |
| Average Loan Size | | | 298 | |

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

As part of and within the lending results previously noted, ANB's lending performance with the U. S. Small Business Administration (SBA) and the Anne Arundel Economic Development Corporation (AAEDC) is particularly noteworthy. ANB has continued their strong performance in SBA loan programs and maintained their SBA Certified Lender status. The SBA reported ANB ranked 5th in the number of SBA loans originated, and 7th in the dollars of loans originated, among the 25 SBA lenders in the Baltimore District for the federal fiscal year ending September 30, 1996. Of SBA loans originated by ANB under the SBA loan guarantee program since the last examination, 40 loans (or 73% of the number of loans), representing \$5.7 million dollars (or 66% of the dollars of loans) are in ANB's assessment area. ANB's record of lending under the SBA loan guarantee program reflects:

ANB's SBA Loans Under SBA's Loan Guarantee Program

| <u>Location</u> | <u># of Loans</u> | <u>% of Loans</u> | <u>\$ (000's)</u> | <u>% of Dollars</u> |
|--------------------------------|-------------------|-------------------|-------------------|---------------------|
| In Assessment Area | 40 | 73 % | 5,734 | 66 % |
| <u>Outside Assessment Area</u> | <u>15</u> | <u>27 %</u> | <u>2,939</u> | <u>34 %</u> |
| Total | 55 | 100 % | 8,673 | 100 % |
| Average Loan Size | | | 158 | |

Additionally, ANB originated 5 loans under the SBA 504 loan program representing \$4.9 million dollars since the last examination, 100% of which are in their assessment area.

ANB has continued their strong record of lending under Anne Arundel Economic Development Corporation (AAEDC) loan programs. ANB is 1 of 15 banks with loan commitments to AAEDC's Incentive Fund. Under this program, AAEDC provides loans to small businesses for economic development purposes. ANB's outstandings to AAEDC are \$45,000 under the bank's \$200,000 commitment. Additionally, several of AAEDC's small business borrowers also have loan participations with 8 area banks. ANB is 1 of the 2 banks who are regular participants in this latter program, while 6 other banks are occasional participants.

Geographic Distribution Of Loans

A geographic analysis of the distribution of loans is not meaningful, given the demographics of ANB's assessment area.

Response To Complaints

No complaints were received since the prior examination.

Compliance With Antidiscrimination Laws

No substantive violations involving illegal discrimination or discouragement were noted during the concurrent Fair Lending examination.