



## **PUBLIC DISCLOSURE**

June 30, 2014

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

Madison Bank of Maryland  
Charter Number: 708152

1920 Rock Spring Road  
Forest Hill, MD 21050-2605

Office of the Comptroller of the Currency

400 7th Street SW  
Washington, DC 20291

**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 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: Outstanding**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Outstanding**

The major factors that support these ratings include:

- The loan-to-deposit ratio exceeds the standards for satisfactory performance and is more than reasonable based on the Bank's size, financial condition, and relevant competitive factors.
- The Bank's lending in its assessment area exceeds the standards for satisfactory performance. Ninety-Six percent of all HMDA reported loans originated in the review period were within the Bank's assessment area.
- The overall performance of lending to borrowers of different incomes reflects reasonable proportion and meets the standards for satisfactory performance.
- The overall performance for the geographic distribution of loans reflects less than reasonable distribution and does not meet the standards for satisfactory performance.
- The Bank's community development performance exceeds the standards for satisfactory performance in its responsiveness to the community development needs of its assessment area.

## **SCOPE OF EXAMINATION**

The Community Reinvestment Act (CRA) Performance Evaluation (PE) for Madison Bank of Maryland (MBM or Bank) was conducted in accordance with the small bank evaluation procedures. Under the small bank evaluation procedures, MBM's CRA performance was assessed under the lending test. The lending test evaluates the Bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. In addition to the lending test, Madison Bank of Maryland requested a review and evaluation of its performance in community development lending, qualified investments, and community development services.

The evaluation period for the lending test is January 1, 2012 to March 31, 2014. Based upon the Bank's internally prepared loan report, we determined the Bank's primary loan product is Home Mortgage Disclosure Act (HMDA) reportable lending.

The evaluation period for the Community Development (CD) test is July 15, 2008 to June 30, 2014. The CD test evaluates the Bank's responsiveness to the community development needs of its assessment area through CD lending, qualified investments, and CD services. To perform the community development test, we reviewed all of the CD loans, qualified investments, and CD services management submitted to ensure they met the regulatory definition for community development.

## **DESCRIPTION OF INSTITUTION**

Madison Bank of Maryland is a federally chartered mutual savings bank headquartered in Forest Hill, MD. The Bank opened in 1904 as Madison and Bradford Savings and Loan Association. In 2002, the Bank acquired Bohemian American Federal Savings and Loan Association. In 2006, the Bank acquired The Back and Middle River Federal Savings and Loan Association before changing its name in 2010 to Madison Bank of Maryland.

As of March 31, 2014, the Bank had total assets of \$144.2 million and Tier 1 Capital of \$18.2 million. At March 31, 2014, the Bank reported net loans and leases of \$110.8 million or 76.85% of total assets. The Bank's loan portfolio consists primarily of 1-4 family residential loans with these loans totaling 84.24% of total loans.

The Bank operates three branches located in Forest Hill, Aberdeen, and Nottingham, Maryland. These branches are located in middle-income and moderate-income census tracts.

The Office of Thrift Supervision performed MBM’s prior CRA evaluation on July 14, 2008 and rated the Bank “Outstanding”. There were no legal or regulatory impediments adversely affecting the Bank’s ability to meet community credit needs during this CRA evaluation review period.

**DESCRIPTION OF ASSESSMENT AREA**

The Bank’s assessment area includes:

Madison Bank of Maryland’s Assessment Area Baltimore-Towson, MD MSA 12580					
Anne Arundel County	Baltimore County	Baltimore City	Carroll County	Harford County	Howard County

The Bank’s assessment area does not arbitrarily exclude any low- or moderate-income (LMI) census tracts. Though located in the MSA, MBM’s assessment area does not include Queen Anne’s County because Queen Anne’s County is across the Chesapeake Bay. MBM’s assessment area contains a variety of economic environments including cities, suburban communities and rural towns in low, moderate, middle and upper income census tracts. Major industries in the area include state and local government, health care services, biosciences, financial industry, manufacturing and retail trade. Per the U.S. Bureau of Labor Statistics, the unemployment rate in the Bank’s assessment area as of May 2014 is 6.0%.

The Bank faces competition from branches of larger regional and national banks as well as local community banks in its assessment area. These larger financial institutions have extensive branch network systems throughout the region. MBM’s branch presence is concentrated in the Harford county and northern Baltimore county regions. Based on 2012 peer mortgage data, two large multi-state financial institutions have 26% of the market share for mortgages. In contrast, MBM’s market share of mortgages in its assessment area is 0.06%. According to the June 30, 2013 FDIC Summary of Deposit Market Share report, five financial institutions have 73.57% of the deposit market share, while MBM has 0.18% of the deposit market share in its assessment area.

Table 1, which is based on 2010 Census data, sets forth certain demographic characteristics of the Bank’s assessment area:

<b>Table 1: Demographic Information for Full Scope Area: Madison Bank 2014 AA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	668	14.97	22.01	32.63	29.19	1.20
Population by Geography	2,662,691	10.80	20.95	34.76	32.97	0.52
Owner-Occupied Housing by Geography	677,848	5.76	16.97	38.16	39.10	0.01
Business by Geography	228,480	7.21	14.66	36.62	41.29	0.23
Farms by Geography	4,631	2.03	7.97	37.53	52.47	0.00
Family Distribution by Income Level	653,077	21.54	17.31	20.90	40.24	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	253,766	19.29	29.98	32.95	17.77	0.00
Median Family Income HUD Adjusted Median Family Income for 2014 Households Below Poverty Level		81,788 81,788 9%	Median Housing Value Unemployment Rate (May 2014 U.S Bureau of Labor Statistics)		294,597 6.0%	

Source: 2010 US Census and 2014 HUD updated MFI.

The assessment area consists of 668 census tracts. Of the 668 census tracts, there are 100 low-income geographies (14.97%), 147 moderate-income geographies (22.01%), 218 middle-income geographies (32.63%), 195 upper-income geographies (29.19%), and 8 geographies (1.20%) that are not assigned an income classification.

The 2010 Census data reported the total population of the assessment area at 2.66 million. Within the assessment area, there are 653,077 families. Of these, 21.54% of families are low-income, 17.31% of families are moderate-income, 20.90% of families are middle-income, and 40.24% of families are upper-income. Median family income is \$81,788 and approximately 9% of households are below the poverty level.

Per the 2010 Census data, there are 677,848 owner occupied housing units, of which, 5.76% are in low-income geographies, 16.97% are in moderate-income geographies, 38.16% are in middle-income geographies, and 39.10% are in upper-income geographies. The median housing value is \$294,597. Per 2012 estimates, there are 1,017,954 housing units, of which, 65.60% are owner-occupied, and 34.30% are rental-occupied units.

In assessing the Bank's performance, we reviewed community contact data to gain a better understanding of the community needs. Affordable homes are the primary concern for the AA. There is also a need for access to traditional banking services in the AA. According to community contacts, there are opportunities for local financial institutions to participate in the community beyond monetary contributions. Community

contacts noted that volunteering, financial literacy and educational training programs administered by bank staff would be beneficial to the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Lending Test

Madison Bank of Maryland’s performance under the lending test is “satisfactory” and meets the standards of satisfactory performance in its responsiveness to the needs of its assessment area. All lending test criteria are listed below:

#### Loan-to-Deposit Ratio (LTDR)

Madison Bank of Maryland’s average LTDR for the nine quarters of the performance evaluation meets the needs of the community and exceeds the standards for satisfactory performance. The Bank’s average LTDR of 99.71% compares favorably to its peer average of 75.65%.

#### Lending in Assessment Area

Madison Bank of Maryland’s lending in assessment area exceeds the standards for satisfactory performance. In total, the Bank originated 208 loans totaling \$37.36 million over the assessment period. Of the 208 originations, 95.85% were originated within the Bank’s assessment area.

Table 2 displays the breakdown of originations by loan type as follows:

<b>Table 2: Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	22	100	0	0	100.00	3,819	100	0	0	100.00
Refinance	143	95.33	7	4.67	100.00	25,487	96.77	850	3.23	100.00
Home Improvement	43	95.56	2	4.44	100.00	8,053	95.71	361	4.29	100.00
<b>Total</b>	<b>208</b>	<b>95.85</b>	<b>9</b>	<b>4.15</b>	<b>100.00</b>	<b>37,359</b>	<b>96.86</b>	<b>1,211</b>	<b>3.14</b>	<b>100.00</b>

Source: Data reported under HMDA. Data collected by the bank.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The Bank’s distribution of home purchase, home improvement and refinance loans meets the standards for satisfactory performance. Madison Bank of Maryland meets the needs of LMI borrowers in the assessment area considering the Bank’s overall market share and financial condition. The Bank’s distribution of home purchase loans to moderate-income borrowers is significantly higher than the percentage of moderate-income families in the assessment area. In addition, the Bank compares favorably in the distribution of refinance loans to moderate-income borrowers.

Table 3 compares the borrower distribution of residential real estate loans in the Baltimore –Towson assessment area by income level of the borrowers and number of loans the Bank originated:

<b>Table 3: Borrower Distribution of Residential Real Estate Loans in AA</b>												
Borrower Income Level	Low		Moderate		Middle		Upper		Aggregate Lending Data			
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	Low	Mod	Mid	Upp
Home Purchase	21.54	5.56	17.31	22.22	20.90	27.78	40.42	44.44	10.55	26.24	25.14	38.07
Home Improvement	21.54	10.00	17.31	7.50	20.90	15.00	40.24	67.50	13.42	22.05	24.99	39.54
Refinance	21.54	3.57	17.31	13.57	20.90	24.29	40.24	58.57	6.31	16.24	25.19	52.26

Source: Data reported under HMDA; U.S Census data.

**Geographic Distribution of Loans**

The geographic distribution of loans does not meet the standards for satisfactory performance. The Bank’s distribution of home purchase, home improvement and refinance loans to LMI tracts is less than reasonable. The percentage of loans is significantly lower than the percentage of owner occupied units in LMI tracts.

Table 4 compares the geographic distribution of residential real estate loans in the Baltimore–Towson assessment area by income level of the borrowers and number of loans the Bank originated:

**Table 4: Geographic Distribution of Residential Real Estate Loans in AA**

Borrower Income Level	Low		Moderate		Middle		Upper		Aggregate Lending Data by Tract Income			
	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans	Low	Mod	Mid	Upp
Home Purchase	5.76	4.55	16.97	9.09	38.16	50.00	39.11	36.36	3.49	13.50	39.91	43.09
Home Improvement	5.76	2.33	16.97	0.00	38.16	27.91	39.11	69.77	4.36	13.31	37.54	44.80
Refinance	5.76	0.00	16.97	4.90	38.16	45.45	38.11	49.65	1.98	8.79	35.55	53.68

Source: Data reported under HMDA; US Census data.

**Responses to Complaints**

No complaints concerning Madison Bank of Maryland’s performance in meeting the credit needs of the assessment area have been received since the preceding evaluation.

**Community Development Test**

Madison Bank of Maryland’s performance under the community development test is “outstanding” and exceeds the standards for satisfactory performance in its responsiveness to the community development needs of its assessment area. The examiner considered community development activities submitted by the Bank from July 15, 2008 through June 30, 2014.

**Number and Amount of Community Development Loans**

During the evaluation period, MBM originated a \$1 million community development line of credit to an organization that acquires properties at a discounted price and renovates them for resale to qualified moderate- and middle-income borrowers. The organization provides financial assistance, closing costs and grants to borrowers. MBM also participates in an affordable housing program that provides financing for below market purchase as well as rehabilitation and renovation financing to LMI borrowers. Currently, there are 93 first mortgage loans totaling \$18,094,410 and 11 second lien loans totaling \$84,816 in the program. The Bank’s participation in the program ranges between 2.38% and 2.63% of total loans outstanding.



### **Number and Amount of Qualified Investments**

MBM made seven grants or donations totaling \$1,220 to qualified community development organizations. The investments were made to organizations that provide homeownership opportunities for LMI individuals and families. The qualified investments also include special projects and donations for children in low- to moderate-income tracts of the Bank's assessment area.

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

MBM visits elementary schools located primarily in LMI tracts to teach students about savings and budgeting. The Bank also offers a first-time homebuyer program with a reduced interest rate/annual percentage rate and a specific fee waiver.

Additionally, although these have not yet come to fruition, an officer is currently in the process of:

- Working with SARC, a nonprofit agency located in Harford County, to provide a Financial Literacy program to low-to-moderate income individuals;
- Researching homebuyer assistance programs available through Federal Home Loan Bank and others to provide affordable financing for borrowers, especially first-time homebuyers; and
- Obtaining a Board position, through recent nomination, for Home Partnership, Inc. The nonprofit organization helps residents in Harford County achieve homeownership through a first-time homebuyer education program, foreclosure prevention program and by providing closing cost assistance.

### **Responsiveness to Community Development Needs**

The Bank's community development activities demonstrate outstanding responsiveness to the community development needs of its assessment area.

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

Pursuant to 12 CFR 25.28(c) or 12 CFR 195.28(c), in determining a National Bank's (Bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the Bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the Bank's or FSA's lending performance.

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