



## **PUBLIC DISCLOSURE**

February 23, 2015

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Chesapeake Bank of Maryland  
Charter Number 702148

2001 E Joppa Rd  
Baltimore, MD 21234-2845

Office of the Comptroller of the Currency

400 7th Street S.W.  
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, 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 Outstanding**

The major factors that support these ratings include:

- The institution's loan-to-deposit ratio is satisfactory based on the bank's size, financial condition, and relevant competitive factors.
- A substantial majority of the bank's loans were originated within the Bank's designated assessment area (AA).
- The overall performance of lending to borrowers of different incomes reflects excellent penetration and exceeds the standards for satisfactory performance.
- The overall performance for the geographic distribution of loans reflects excellent penetration and exceeds the standards for satisfactory performance.

## **SCOPE OF EXAMINATION**

CBM was evaluated using the Small Bank Community Reinvestment Act (CRA) procedures as the Bank had assets of less than \$200 million as of December 31 of either of the prior two calendar years. These procedures evaluate the Bank's performance based upon a Lending Test and a Community Development (CD) Test. The Lending Test evaluates the Bank's record of meeting the credit needs of its assessment area through its lending activities. The Community Development Test evaluates the Bank's responsiveness to the community development needs in its assessment area through CD lending, qualified investments, and community development services.

The review covered the bank's performance from January 1, 2008, the date of the prior Performance Evaluation (PE) to December 31, 2014, the date of the current evaluation. The evaluation period for the community development test is from January 1, 2012 through December 31, 2014. Community development loans, investments, and services submitted by management were verified to ensure they met the regulatory definition of community development.

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. This evaluation considers CBM's HMDA-reportable loans (home purchase, home improvement, and home refinance) for the calendar years 2012, 2013, and 2014.

## **DESCRIPTION OF INSTITUTION**

CBM is a wholly owned subsidiary of the Banks of the Chesapeake, M.H.C., a mutual holding company. The Bank is a federally chartered stock savings bank headquartered in Baltimore, MD. As of December 31, 2014, the Bank reported total assets of \$169.9

million, total deposits of \$148.1 million, Tier One Capital of \$18.5 million, and net loans and leases of \$120.9 million. CBM's loan portfolio represented 81 percent of total assets. The Bank's primary lending strategy is the origination and holding of residential real estate loans.

In addition to the bank's main office located in Baltimore County at 2001 E Joppa Road, Baltimore, Maryland 21234, the bank operates three full service branches in Harford County (one), Baltimore County (one), and Anne Arundel County (one), Maryland. These branches are primarily located in middle- (three) and upper-income (one) Census tracts. The branch hours of operations are typically Monday through Thursday, 9:00 AM to 3:00 PM, Friday 9:00 AM to 7:00 PM, and Saturday 9:00 AM to 1:00 PM. Automated Teller Machines (ATM) and drive-thru services are available at all locations with the exception of one of the Baltimore branches. All branches offer night drop services. ATM services are fee-free through the MoneyPass ATM network, including foreign ATM fees. The Bank also offers and free-of-charge mobile and Internet banking.

Throughout the review period, no new branches were opened and no mergers or acquisitions took place; however, two branches closed. In January 2009, the Bank closed its Catonsville Branch, 609 Frederick Road, Baltimore, Maryland 21228 due to poor financial performance and low market share and growth. The Catonsville Branch was located in Baltimore County in an upper income tract and near one low-income census tract. The Bank determined that there were twenty other banking institutions within a two-mile radius of the branch. The Catonsville Branch closure was not expected to affect low- to moderate-income individuals. The Catonsville Branch is located roughly four miles from the Arbutus Branch (5424 Carville Avenue, Baltimore, MD 21227).

In October 2013, the Bank closed its Paterson Park Branch, located in Baltimore City at 2240 Eastern Avenue, Baltimore, MD 21231, due to high overhead expenses and low earnings. The Paterson Park Branch was located in a middle-income Census tract and near one low-and three moderate-income census tracts. The Bank determined that 44%, or \$8 million, of the branch's deposits are attributable to the neighborhood and a significant number of depositors now reside near the Bank's Baltimore and Harford County branches. The Bank determined that sixteen institutions and twenty-three branches including mega, regional, and community banks of all sizes service the area. The Bank was still able to continue to provide services to the community through Internet, mobile banking, bank-by-phone and an ATM network.

The Bank participated in several lending programs that feature flexible terms designed to help meet the credit needs of first-time homebuyers and low- and moderate-income borrowers. Chesapeake Bank of Maryland is an approved Maryland Community Development Administration (CDA) Lender. CDA offers financing at low fixed rates, with down payment and closing cost assistance programs. The Bank participation in the Federal Home Loan Bank of Atlanta (FHLBA) First-Time Homebuyer Offering Program involved a grant component where the bank assisted borrowers in receiving grants from the FHLBA to provide closing cost and down payment assistance. These

loans are made in an effort to help meet the credit needs of first-time homebuyers and low-and moderate-income housing and community lending within the Bank's AA. In efforts to offer flexible lending programs, the Bank lent \$120,560 from 2012 to 2014 to small businesses.

At the previous CRA examination as of October 27, 2009, the Bank received a CRA rating of "Outstanding." The Bank has no legal or financial circumstances that could impede its ability to meet the credit needs in its AA.

Refer to the Bank's CRA Public File for additional information not included in this section.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

CBM identified the Baltimore-Towson, MD MSA 12580 as its AA, including Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Harford County, and Howard County. The Bank excludes Queen Anne's County in its AA. CBM designated all of the census tracts in Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Harford County, and Howard County in this AA.

CBM's AA encompasses a wide range of economic environments including cities, suburban communities, and rural towns. Federal and state governments are a significant source of employment within the Bank's AA given the location of the capital of Maryland within the AA. Major military bases, including the U.S. Naval Academy, and Aberdeen Proving Grounds, employ members of various military branches as well as civilians. Other major industries in the area include government contracting, medical and research facilities, air and ground transportation systems, educational, and financial and retail services.

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. There is also a need for lending to marginal small and midsize businesses. According to the community contact and data, there are opportunities for local financial institutions to participate in the community such as participating in Small Business Administration lending programs to help local financial institutions alleviate the perceived risk associated with lending to marginal borrowers.

## **Demographic Data Based on 2010 Census**

The table below, which is based on 2010 U.S. Census Data, shows the demographic characteristics of the AA.

<b>Demographic Information for Full Scope Area: Baltimore-Towson MD MSA 12580</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA % of #</b>
Geographies (Census Tracts/BNAs)	468	2.78	15.81	42.09	38.03	1.28
Population by Geography	2,041,730	2.64	14.57	42.02	40.36	0.42
Owner-Occupied Housing by Geography	806,553	1.20	10.45	43.33	45.02	0.01
Family Distribution by Income Level	525,157	2.31	13.49	41.99	42.21	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	762,645	2.64	15.35	42.74	39.26	0.01
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level	\$81,788 \$85,600 6.12%	Median Housing Value Unemployment Rate (2010 US Census)	\$338,821 3.63%			

Source: 2010 U.S. Census and 2010 Updated MFI

The AA consists of 468 census tracts. Low- and moderate-income geographies represent 2.78 percent and 15.81 percent of these tracts, respectively. Middle-income geographies represent 42.09 percent of the tracts, and upper-income the remaining 38.03 percent. The Bank's AA does not arbitrarily exclude any low- and moderate-income areas.

The 2010 U.S. Census Data reported the total population of the assessment area to be approximately two million. Within the assessment area, there are 525,157 families. The 2010 U.S. Census median family income was \$81,788 and the 2013 HUD Updated Median Family Income was \$85,600. Approximately 2.31 percent of families are low-income, 13.49 percent are moderate-income, 41.99 percent are middle-income, and 42.21 percent are upper-income. An estimated 6.12 percent of households are below the poverty level.

According to the 2010 U.S. Census Data, approximately 1.20 percent of owner-occupied housing is in low-income geographies, 10.45 percent is in moderate-income geographies, 43.33 percent is in middle-income geographies, and 45.02 percent is in upper-income geographies. The median housing value is \$338,821.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

CBM's overall Lending Test performance under the lending test is "Outstanding." The Bank's lending levels to low- and moderate-income borrowers exceeds the standards for satisfactory performance and is more than reasonable based on the credit needs of the AA. This includes a more than reasonable penetration to borrowers of different incomes in the AA as well as a more than reasonable penetration throughout the geographic distribution of assessment area. The percentage of lending in the AA exceeds the standards for satisfactory performance as a majority of loans were

originated in the AA. The loan-to-deposit (LTD) ratio declined since the previous CRA exam and is reasonable.

**Loan-to-Deposit Ratio**

During the review period, Chesapeake Bank’s quarterly average net loan-to-deposit ratio over the twenty-four quarters since the last CRA examination is reasonable given the Bank’s size, financial condition, and the credit needs of the AA. The quarterly average net loan-to-deposit ratio was 73.97 percent. The lowest ratio was 63.94 percent for the quarter ended September 30, 2013 and its highest ratio was 86.73 percent for the quarter ended March 31, 2008. The quarterly average net loan-to-deposit ratio for a custom peer group of six similarly sized and situated banks was 80.23 percent over the same period. The ratio ranged from a quarterly low of 64.92 percent to a quarterly high of 94.66 percent during that time period. The examiner concluded that the Bank’s loan-to-deposit ratio demonstrates reasonable responsiveness to community credit needs and meets the standards for satisfactory performance for this criterion.

**Lending in Assessment Area**

A substantial majority of its home mortgage loans originated during the evaluation period were within the AA. During the evaluation period, 79.72 percent of the number and 78.49 percent of the dollar amount of total home mortgage loans were originated or purchased within the Bank’s assessment area. The following table details the Bank’s lending within the assessment area by number and dollar amount of loans.

<b>2012-2014 HMDA-Reportable Lending Assessment Area</b>				
	<b>No. of Loans</b>	<b>No. % of Total</b>	<b>\$ Amt. of Loans (000)</b>	<b>\$ % of Total</b>
Inside A.A.	224	79.72 %	\$41,844	78.49 %
Outside A.A.	57	20.28 %	\$11,470	21.51 %
Total	281	100 %	\$53,314	100 %

*Source: Data reported under HMDA. Data collected by the Bank.*

**Lending to Borrowers of Different Incomes**

The distribution of loans reflects excellent penetration among individuals of different income levels and CBM’s record of lending to borrowers of different incomes exceeds the standards for satisfactory performance. The level of all home mortgage purchase loans originated to low-income borrowers is higher than the percentage of low-income families in the AA. The Bank’s 23.21 percent of lending to low-income borrowers is more than reasonable. The level of lending to moderate-income borrowers was 25.45 percent and exceeds the 16.54 percentage of moderate-income families in the AA. The Bank’s percentage of loans compares well to the peer aggregate HMDA lending of 16.11 percent. This performance is more than reasonable.

Chesapeake Bank of MD 2012-2014 HMDA Lending Assessment Area					Demographic Benchmarks	Peer Lending Benchmark
Income Level of Borrower	Number	No. Pct.	Dollar (000)	\$ Percent	Percent AA Families	2013 Aggr. HMDA
Low = < 50%	52	23.21	6,121	14.63	16.15	6.64
Moderate = 50-79%	57	25.45	8,912	21.30	16.54	16.11
Middle = 80-119%	43	19.20	8,026	19.18	21.74	19.71
Upper = > 120%	68	30.36	17,631	42.14	45.57	37.99
Income N/A	4	1.79	1,154	2.76	0.00	19.55
Total	224	100%	\$41,844	100%	100%	100%

Source: Data reported under HMDA; 2010 U.S. Census Data

\*1.78 percent of loans were originated to borrowers whose income category was N/A.

### Geographic Distribution of Loans

CBM’s geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels and CBM’s performance exceeds the standards for satisfactory performance. The geographic distribution reflects more than reasonable penetration of low-and moderate-income Census tracts within the AA. We did not detect any conspicuous or unexplained gaps in the Bank’s lending patterns during our review.

The distribution of home loans to low- and moderate-income geographies compares well to the percentage of owner-occupied housing in the AA. The Bank’s lending to low-income geographies of 1.34 percent exceeded the 1.20 percentage of owner-occupied units in the AA. The Bank’s lending to moderate-income geographies of 13.84 percent exceeded the aggregate HMDA lending of 7.99 percent. The Bank’s performance reflects excellent dispersion to low- and moderate-income geographies within the AA.

Chesapeake Bank of MD 2012-2014 HMDA Lending Assessment Area					Demographic Benchmarks	Peer Lending Benchmark
Income Level of Borrower	Number	No. Pct.	Dollar (000)	\$ Percent	Percent O.O.H.U.	2013 Aggr. HMDA
Low = <50%	3	1.34	401	0.96	1.20	0.90
Moderate = 50-79%	31	13.84	3,938	9.41	10.45	7.99
Middle = 80-119%	135	60.27	21,597	51.61	43.33	40.40
Upper = > 120%	55	24.55	15,908	38.02	45.02	50.70
Total	224	100%	\$41,844	100%	100%	100%

Source: Data reported under HMDA; 2010 U.S. Census Data

### Qualified Investments and CD Services

CBM's performance under the community development test in the assessment area is "Outstanding."

CBM's community development activities in their assessment area demonstrates a strong responsiveness to the community development needs. Throughout the evaluation period, CBM and its employees engaged in a number of community activities within the bank's assessment area. This section of the performance evaluation summarizes the bank's community development activities. The examiner considered Community Development Activities submitted by the bank from January 1, 2012 through December 31, 2014.

During the evaluation period, CBM contributed and provided financial and technical expertise to HARBEL Partnership, an organization that promotes housing and community development, primarily for LMI areas and/or to LMI individuals within the assessment area. The Bank contributed \$2,200 in 2012 and \$2,500 in 2014. A Bank Loan Officer serves as First Time Home Buyer educator for the Bank and works with HARBEL Partnership at their homebuyer seminars and provides financial expertise during the homebuyer seminars. HARBEL Partnership sponsors ongoing homeownership seminars for first-time homebuyers in Baltimore City and Baltimore County. During our review period, the Loan Officer participated in homebuyer seminars quarterly.

Throughout the evaluation period, bank employees and officers provide financial and technical expertise to four qualified community development organizations. The Bank has maintained long-standing relationships with these community development organizations. Bank personnel and officers have provided financial expertise to Habitat for Humanity, Helping Out Mission, Journey Home, and GB Charities, Inc.

The Bank's Senior Vice President sits on the underwriting committee for Habitat for Humanity Susquehanna, which covers Harford and Cecil Counties, Maryland. Habitat for Humanity Susquehanna is dedicated to eliminating substandard housing in Cecil County and Harford County, Maryland through action and advocacy. As a member of Habitat for Humanity Susquehanna Finance Committee, Underwriting Committee, and Board of Director, the Senior Vice President spends approximately ten hours per month offering financial and technical expertise.

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

The bank's community development activities, as a whole, demonstrate excellent 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.

### **Responses to Complaints**



CBM 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.