PUBLIC DISCLOSURE

November 22, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Harbor Bank of Maryland
24015

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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.**

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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 **The Harbor Bank of Maryland** *prepared by the* **Federal Deposit Insurance Corporation***, the institution's supervisory agency, as of* **November 22, 2010.** *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 Appendix A to 12 CFR Part 345.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.
The Lending Test is rated: Satisfactory.
The Community Development Test is rated: Satisfactory.

An institution in this category has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The assigned ratings are based on the following factors:

Lending Test

- The bank's quarterly average net loan-to-deposit ratio of 80.1 percent is reasonable given the institution's size, financial condition, and the needs of its assessment area.
- An analysis of the bank's lending reflects that a majority (69.3 percent by number and 69.9 percent by dollar amount) of home mortgage and small business loans were originated within the bank's designated assessment area.
- The geographic distribution of home mortgage loans and small business loans reflects reasonable dispersion throughout the bank's assessment area.
- Overall, the distribution of borrowers reflects, given the demographics of the assessment area, a reasonable penetration among retail customers of different income levels and business customers of different sizes.
- There were no CRA-related complaints received since the previous evaluation.

Community Development Test

- The bank's community development performance demonstrates adequate responsiveness to the community needs of its assessment area through its community development loans, qualified investments, and its community development services.

SCOPE OF EXAMINATION

The Harbor Bank of Maryland (HBMD) was evaluated using the Intermediate Small Bank (ISB) examination procedures. These procedures utilize two performance tests: the Lending Test and the Community Development Test.

The Lending Test evaluated the institution's performance pursuant to the following criteria: net loan-to-deposit (NLTD) ratio, lending in the assessment area, geographic distribution of loans, lending to borrowers of different incomes, and the bank's record of taking action in response to CRA complaints. Home mortgage loans and small business loans were reviewed to assess the bank's performance. Home mortgage loans are loans that are subject to Home Mortgage Disclosure Act (HMDA) reporting requirements. For the purposes of this evaluation, small business loans are defined as commercial real estate loans and commercial/industrial loans originated by the bank in an amount of $1 million or less. As an ISB, the bank was not required to report its small business loans, although the bank collected data pertaining to its small business lending performance in terms of where the loans were located and the revenues of the borrowers. Consumer loans and agricultural loans constitute a small portion of the bank's total lending. As such, these lending products were not included in the Lending Test.

The Lending Test focused on HMDA loans and small business loans originated by the bank during 2008, 2009, and the first nine months of 2010. Except for Table E, which shows the distribution of loans made inside versus outside the assessment area, the loan data is presented for 2008 and 2009 only. For the HMDA loans, the 2010 data is not presented or discussed as the volume of loans was too low to draw any meaningful conclusions. For small business loans, the 2010 data is not presented or discussed as the lending patterns for that year were generally comparable to 2008 and 2009. All tables contained in the Geographic Distribution of Loans and Borrower Profile sections of this evaluation reference loans in terms of number. The bank's performance by dollar volume was similar to number volume, and therefore is not included herein. Throughout this evaluation, aggregate lending data is presented for home mortgage lending for 2008 and 2009. Aggregate small business lending data is not presented because HBMD does not report this data.

Since the previous CRA evaluation dated November 6, 2007, the bank has focused its resources on small business lending and expanding its commercial loan portfolio. Therefore, greater weight was placed on the bank's small business lending, as compared to home mortgage lending, when evaluating the bank's overall performance for this evaluation.

A review of FDIC records, as well as the bank's CRA Public File, did not reveal any complaints relating to the bank's CRA performance; therefore, this performance criterion is not applicable.

The Community Development Test evaluated the bank's responsiveness to the community development needs in its assessment area through community development loans, qualified investments, donations, and community development services, as appropriate, considering the institution's capacity and the need and availability of community development opportunities in the bank's assessment area. The Community Development Test covered activities since the previous CRA evaluation.

DESCRIPTION OF INSTITUTION

HBMD is a full-service minority-owned commercial bank headquartered in Baltimore, Maryland. The bank is wholly owned by Harbor Bankshares Corporation, a one-bank holding company also based in Baltimore. HBMD is a designated Community Development Financial Institution (CDFI). HBMD operates seven full-service banking offices, all in the State of Maryland. Based on the 2000 U.S. Census data, three of the bank's offices are located in low-income census tracts in the City of Baltimore, one office (the main office) is located in a moderate-income census tract in the City of Baltimore, and three offices (one each in the City of Baltimore, Baltimore County, and Prince George's County) are located in middle-income census tracts. There are no offices located in upper-income census tracts. Since the previous evaluation, the bank closed one branch office in a moderate-income geography and opened one office in a low-income geography, both in the City of Baltimore. During the evaluation period the bank also relocated its one branch office in Baltimore County to another location nearby. This relocation resulted in moving the branch office from a moderate-income geography to a middle-income geography. The bank received a CRA rating of "Outstanding" at the previous CRA evaluation as of November 6, 2007.

HBMD offers a variety of deposit and loan products. The bank's deposit products include checking, savings, NOW, and money market accounts, as well as certificates of deposit. HBMD is primarily a commercial lender; however, the bank also makes 1-4 family and multifamily mortgage loans, and home equity loans and lines of credit. The bank also makes a small number of consumer and personal loans and engages in a minimal amount of agricultural lending.

As of September 30, 2010, the bank's assets totaled $273.2 million. The bank's loan portfolio of $205.1 million represented approximately 75.1 percent of the bank's total assets, and 86.6 percent of total deposits of $236.9 million. The bank's investment portfolio, consisting almost entirely of U.S. government-sponsored agency securities and federal funds, totaled $40.7 million and represented approximately 14.9 percent of total assets and 17.2 percent of total deposits.

The bank's loan portfolio totaled $205.1 million as of September 30, 2010. Commercial real estate loans, commercial/industrial loans, and construction and land development loans made up approximately 82.6 percent of the loan portfolio, while residential mortgage loans represented approximately 11.3 percent. The remainder of the loan portfolio is distributed among multi-family loans (2.6 percent), lease financing (1.9 percent), consumer and other loans (1.1 percent) and agricultural loans (0.5 percent).

Table A provides a breakdown of the bank's loan portfolio as of September 30, 2010.

Table A - Loan Distribution as of 9/30/2010		
Loan Type	**Dollar Amount (000s)**	**Percent of Total Loans**
Construction and Land Development	7,647	3.7
Secured by Farmland	0	0.0
1-4 Family Residential	23,127	11.3
Multi-Family (5 or more) Residential	5,404	2.6
Commercial	103,925	50.7
Total Real Estate Loans	**140,103**	**68.3**
Commercial and Industrial	57,793	28.2
Agricultural	1,094	0.5
Consumer	2,443	1.2
Other	76	<0.1
Lease Financing	3,809	1.9
Less: Unearned Income	180	0.1
Total Loans	**205,138**	**100.0**

Source: Call Report Schedule RC-C

The bank had a Tier 1 leverage capital ratio of 8.7 percent and a Return on Average Assets (ROA) ratio of 0.1 percent as of September 30, 2010. Tier 1 leverage capital measures the level of an institution's core capital as a percent of total assets and ROA measures an institution's net income as a percent of average assets. The bank's peer group ROA ratio was 0.3 percent as of September 30, 2010. The bank's peer group is defined as all commercial banks having total assets between $100 million and $300 million with three or more full service banking offices and located in an MSA.

The Return on Equity (ROE) ratio for the bank as of September 30, 2010 was 0.7 percent compared to 1.9 percent for its peer group. Total equity capital as of September 30, 2010 for the bank was $28.1 million. HBMD reported net losses of $51,000 and $4.9 million for the years 2008 and 2009, respectively, and net income of $142,000 for the first nine months of 2010. The sources of this information are Call Reports that HBMD submitted to the FDIC.

The bank has been operating under a formal enforcement action in the form of a Consent Order since April 5, 2010. This action, issued by the FDIC and the Commissioner of Financial Regulation for the State of Maryland, addresses various financial issues and may impact the bank's lending abilities. In addition, the high level of competition in the assessment area combined with other performance context factors noted elsewhere in this evaluation may also impact the bank's ability to originate loans.

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act requires financial institutions to define an assessment area(s) within which the bank will focus its lending efforts. The FDIC evaluates the institution's CRA performance based on its activity within the defined assessment area(s). The bank's assessment area (AA) has been defined as all 587 of the census tracts in the City of Baltimore, Baltimore County, and Prince George's County, all of which are in the State of Maryland. Both the City of Baltimore and Baltimore County are part of the Baltimore-Towson, Maryland Metropolitan Statistical Area (MSA) 12580. It should be noted that the City of Baltimore is an independent city and not part of any county in Maryland. Prince George's County is part of Metropolitan Division (MD) 47894 (Washington-Arlington-Alexandria, DC-VA-MD-WV). MD 47894 is part of MSA 47900 (Washington-Arlington-Alexandria, DC-VA-MD-WV). Since all three jurisdictions are within Combined Statistical Area (CSA) 548 (Washington-Baltimore-Northern Virginia, DC-MD-VA-WV), they will be treated as one assessment area for purposes of this evaluation.

Table B shows the distribution of census tracts within the current AA in the various jurisdictions, based on 2000 U.S. Census data:

Table B - Distribution of Census Tracts in the Assessment Area

Census Tract Income Category	City of Baltimore	Baltimore County	Prince George's County	Total #	Total %
Low	74	4	7	85	14.5
Moderate	86	33	73	192	32.7
Middle	29	114	83	226	38.5
Upper	10	50	20	80	13.6
NA	1	3	0	4	0.7
Total	200	204	183	587	100.0

Source: CRAWIZ and 2000 U.S. Census Data

The U.S. Department of Housing and Urban Development (HUD) annually adjusts the median family incomes for MSAs as well as for non-metropolitan areas within a state. The 2008 HUD-adjusted median family income (MFI) for MSA 12580 was $78,200 while the 2009 HUD-adjusted MFI was $82,100. The HUD-adjusted MFIs for MD 47894 were $97,200 and $100,800 for the years 2008 and 2009, respectively. Borrowers are categorized as low-, moderate-, middle-, or upper-income using these HUD-adjusted MFI figures. Table C that follows shows this categorization for 2008 and 2009.

Table C – Borrower Categorization Based Upon HUD-Adjusted Median Family Income by MSA/MD

Category	Low-Income	Moderate-Income	Middle-Income	Upper-Income
MSA 12580 – 2008	$0-$39,099	$39,100-$62,559	$62,560-$93,839	$93,840+
MSA 12580 – 2009	$0-$41,049	$41,050-$65,679	$65,680-$98,519	$98,520+
MD 47894 – 2008	$0-$48,599	$48,600-$77,759	$77,760-$116,639	$116,640+
MD 47894 – 2009	$0-$50,399	$50,400-$80,639	$80,640-$120,959	$120,960+

Source: U.S. Department of Housing and Urban Development

Population Data

The population of the bank's assessment area is 2.2 million. Of this population, 252,383 (11.4 percent) reside in low-income census tracts; 745,389 (33.8 percent) reside in moderate-income census tracts; 878,335 (39.8 percent) reside in middle-income census tracts; 324,028 (14.7 percent) reside in upper-income census tracts; and 6,826 (0.3 percent) reside in census tracts designated as NA. The median family and median household incomes of the assessment area are $56,801 and $47,957, respectively. The AA has 547,637 family households (a household where two or more occupants are related by birth, marriage, or adoption), of which 26.1 percent are low-income, 20.6 percent are moderate-income, 22.7 percent are middle-income, and 30.6 percent are upper-income. The total number of households (family and non-family) within this same area is 844,458, of which 28.1 percent are low-income, 19.7 percent are moderate-income, 20.5 percent are middle-income, and 31.7 percent are upper-income. According to 2000 U.S. Census data, 11.3 percent of the households within the assessment area are below the federal poverty levels.

Housing Data

The total number of housing units within the bank's assessment area is 916,589, of which 55.6 percent are owner-occupied and 36.5 percent are rental units. The vacancy rate is 7.9 percent. The median housing value of the bank's assessment area is $127,752, while median gross rent is $636.

Approximately 6.2 percent of the owner-occupied housing units within the assessment area are located in the low-income census tracts, 27.5 percent are in the moderate-income census tracts, 46.4 percent are in middle-income census tracts, and 19.9 are percent in upper-income census tracts. There are no owner-occupied housing units in the four census tracts designated as NA. The distribution of rental units is 17.9 percent in the low-income census tracts, 44.7 percent in moderate-income census tracts, 31.3 percent in middle-income census tracts, and 6.1 percent in upper-income census tracts. There are only 11 rental units, less than 0.1 percent of all assessment area rental units, in the four census tracts designated as NA.

An analysis of the affordability of housing was performed during this evaluation by calculating an affordability ratio. The affordability ratio is a method used to determine the amount of single-family owner-occupied housing that a dollar of income can purchase, for the median household, within a given geography. The ratio is calculated by dividing the median household income by the median housing value of the area or geography under analysis. Values closer to 1.0 indicate greater affordability. The median household income of the bank's assessment area is $47,957, and the median housing value is $127,752, resulting in an affordable ratio of 0.38 (weighted). This ratio is weighted to compensate for median income and housing figures that encompass only portions of counties and MSAs. The affordability ratios for MSA 12580 and MD 47894 are 0.36 and 0.33, respectively, while the affordability ratio for the State of Maryland is 0.37.

Table D provides additional details with respect to the housing statistics of the assessment area. Any additional information relative to housing data can be obtained at the U. S. Census Bureau's web site – www.census.gov.

Table D – Selected Housing Characteristics by Income Category of the Geography

Geographic Income Category	**Percentage**						**Median**		
	Census Tract	**House-holds**	**Housing Units**	**Owner-Occupied**	**Rental Units**	**Vacant Units**	**Age***	**Home Value**	**Gross Rent****
Low	14.5	10.8	12.4	6.2	17.9	30.7	53	$52,923	$433
Moderate	32.7	34.3	34.6	27.5	44.7	37.4	44	$88,644	$630
Middle	38.5	40.4	39.2	46.4	31.3	25.6	34	$127,971	$725
Upper	13.6	14.5	13.8	19.9	6.1	6.3	26	$205,518	$854
N/A	0.7	0.0	0.0	0.0	0.0	0.0	0	0	0
Total or Median	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**36**	**$127,752**	**$636**

*Source: U.S. Census; * - Owner-Occupied Units, ** - Renter-Occupied Units*

Business Data

According to data derived from Dun & Bradstreet for the year 2008, there were 166,280 non-farm businesses located in the bank's assessment area. Of these, about 68 percent reported gross annual revenues of $1 million or less, and are therefore considered to be "small businesses" for the purposes of CRA. Approximately 68 percent of all farm and nonfarm businesses in the assessment area reported having fewer than ten employees. About 90 percent of the businesses are "single location" businesses. Of the 166,280 nonfarm businesses within the bank's assessment area, 7.5 percent were in low-income census tracts, 28.0 percent were located in moderate-income census tracts, 45.6 percent were located in middle-income census tracts, 18.9 percent were located in upper–income census tracts, and less than 0.1 percent were located in the census tracts designated as NA.

Business data for 2009 derived from Dun & Bradstreet showed that there were 179,168 non-farm businesses in the bank's assessment area. Approximately 77 percent of these businesses reported revenues of $1 million or less, and are "small businesses" for the purposes of CRA. Approximately 77 percent of all farm and nonfarm businesses in the assessment area reported having fewer than ten employees. About 91 percent of the businesses are "single location" businesses. Of the 179,168 nonfarm businesses within the assessment area in 2009, 7.2 percent were located in low-income census tracts, 27.8 percent were located in moderate-income census tracts, 45.5 percent were located in middle-income census tracts, 19.5 percent were located in upper–income census tracts, and less than 0.1 percent were located in the census tracts designated as NA. The largest employers in the bank's assessment area during both 2008 and 2009 were in the following industries: services; retail trade; finance, insurance, and real estate; and construction.

Economic Data

The following information regarding the Baltimore, Maryland and Washington, DC metropolitan areas and the State of Maryland was obtained from the Regional Economic Conditions reports produced by the FDIC's Division of Insurance and Research.

According to the most recent economic data available, the economic recovery of the Baltimore, Maryland metropolitan area from the recent recession is expected to gain momentum toward the end of 2010 and into 2011, but it is expected to take several years for the labor market to reach full employment. Financial firms, which had played a larger role in the Baltimore area economy than nationally, have shrunk, and the problems in this sector are expected to continue. Military-related gains from base realignments are considered instrumental in the economy's forecast for a strong recovery, but the direct hiring will not show up in payroll employment, which does not include military employment. The Baltimore metropolitan area economy is mature but promising developments in medical research, tourism, and distribution are expected to enable it to track the U.S. economy in the long term. Economic strengths include a concentration of defense and life science facilities, proximity to the core of federal government operations in Washington, DC, and strong transportation and distribution industries. Above average living and business costs, the continued decline in old-line manufacturing industries, and weak population growth are constraints on the area's economy.

The economy of Prince George's County is linked to that of the greater Washington, DC metropolitan area. Federal discretionary spending and payroll expansion is expected to improve employment and personal income growth in the Washington, DC area. However, the unemployment rate is anticipated to be around 11 percent in early 2011 and is not expected to return to its pre-recession rate over the extended forecast horizon. The federal budget deficit is considered problematic and will likely force various substantial changes to entitlement programs and tax policy. Such changes may adversely affect the local economy, which is heavily dependent on government spending. Weak population growth and an unfavorable cost structure will also be a drag on the area's economy. It is expected that the economy of the Washington, DC metropolitan area will be a below-average performer during 2011.

Maryland's economy was expected to gain momentum quickly in late 2010 and early 2011. Federal spending, combined with gains in population and investment from the military base realignment, are expected to support the recovery. The financial sector is not expected to regain the ground lost during the recent recession and will likely play a smaller role than previously. The state's unemployment rate is anticipated to peak at about 7.6 percent in the first half of 2011, noticeably below the national average. Maryland's highly educated workforce in private research facilities is expected to ensure that the state economy performs on par with the national average. The state's economy is also supported by high per-capita income. Factors that could negatively impact the state's economy are the eroding fiscal conditions of the state and local governments, exposure to a downturn in global trade, and high business costs compared to most other states. Discussions with the bank's management indicated that the national economic recession had an adverse impact on the demand for commercial loans, particularly during the year 2009. Management also stated that, due to concerns regarding increased delinquency and foreclosure rates within the assessment area, particularly in Prince George's County, the bank began to reduce the volume of its home mortgage and commercial lending in 2008 in an attempt to maintain appropriate asset quality. Data from the State of Maryland and RealtyTrac, a provider of property foreclosure data, showed that Prince George's County and the City of Baltimore had the highest and third highest rates, respectively, of foreclosures of all jurisdictions within the State of Maryland during the year 2008.

<u>Competition and Services</u>

There is a high level of competition to provide banking services within the bank's assessment area. Including HBMD, there are 37 FDIC-insured institutions that are headquartered in the City of Baltimore, Baltimore County, and Prince George's County. Within these jurisdictions, there are over 570 banking offices, many of which belong to large national and regional financial institutions such as Bank of America, N.A.; Manufacturers & Traders Trust Company; PNC Bank, N.A.; Wells Fargo Bank, N.A.; and SunTrust Bank. As of June 30, 2010, the latest date for which deposit market share data is available, HBMD had a 0.6 percent share of the deposit market in the three jurisdictions that make up its assessment area.

There is also a high level of competition in the bank's assessment area for mortgage loans. During 2009, the latest year for which aggregate lending data is available, 537 HMDA lenders reported originating one or more mortgage loans in the bank's assessment area. HBMD ranked 214th with a market share of less than 0.1 percent by the number of loans. The top ten HMDA lenders in 2009 had a combined market share of 43.5 percent by the number of loans, with the leading lender having a market share of 11.6 percent by number volume. Among the leading lenders were national and regional financial institutions such as Wells Fargo Bank; Bank of America, N.A.; and MetLife Bank, N.A.

A high level of competition for small business loans exists in the bank's assessment area. In 2009, the latest year for which aggregate small business lending data is available, there were 88 lenders that reported one or more small business loan originations in the three jurisdictions that make up the bank's assessment area (HBMD is not required to report small business lending data). Large multi-state, multi-billion dollar institutions headed the list of small business lenders in the bank's assessment area. The top ten lenders had a combined market share of 80.8 percent by the number of loans, with the leading lender originating 32.9 percent of the number of loans. Five of the top ten lenders had an average loan size of less than $10,000, indicating that these loans were likely obtained by using credit cards. Although HBMD offers business credit cards, this product represents an insignificant portion of the bank's overall lending.

Community Contact

A review of community contacts made in the bank's assessment area since 2009 indicated a continuing need for more affordable housing in the City of Baltimore. Contacts noted the increase in delinquencies and foreclosures in the Baltimore metropolitan area due to previous predatory lending practices, and cited the need for flexibility on the part of lenders in dealing with financially distressed homeowners. Contacts also noted the need for private sector participation in the funding of development and redevelopment projects, particularly in the City of Baltimore, as well as greater flexibility on the part of lenders in terms and conditions for loans to small businesses. Financial participation in the stabilization of older neighborhoods in economically distressed areas of the City of Baltimore was noted as an opportunity for financial institutions. The contacts did not provide any specific information about HBMD.

One community contact indicated that there is a need for more banking offices in certain parts of Baltimore County, especially in minority communities where access to financial services has continued to diminish due to mergers and acquisitions of financial institutions. The contact also noted that there are opportunities for financial institutions to participate in state and county programs designed to stabilize and preserve older neighborhoods, to assist low-and moderate-income persons to become or remain homeowners, and to participate in financial literacy training programs. The contact did not provide any specific information about HBMD.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test contains the following five performance criteria:

1) The institution's loan-to-deposit ratio adjusted for seasonal variation and, as appropriate, other lending-related activities such as secondary market participation, community development loans, or lending-related qualified investments.
2) The percentage of loans and other lending-related activities located in the institution's assessment area(s).
3) The distribution of lending among borrowers of different income levels and businesses and farms of different sizes (borrower profile).
4) The distribution of lending among geographies of different income levels.
5) The institution's record of taking action, if warranted, in response to written complaints about its CRA performance.

Loan-to-Deposit Ratio

HBMD maintained an average net loan-to-deposit (NLTD) ratio during the evaluation period that is considered reasonable given the bank's size, financial condition, and assessment area credit needs. HBMD's average NLTD ratio was calculated using the 12 most recent quarterly Uniform Bank Performance Reports (UBPRs) issued since the previous CRA evaluation. The ratio is calculated using net loans and leases in relation to total deposits. For the evaluation period, the bank's average NLTD ratio was 80.1 percent, with an NLTD ratio of 85.1 percent at September 30, 2010. The bank's NLTD ratio has fluctuated since the previous evaluation, ranging from a low of 71.7 percent as of December 31, 2007, to a high of 85.1 percent as of September 30, 2010.

As of September 30, 2010, the bank's NLTD ratio of 85.1 percent compared favorably with its national peer group's NLTD ratio of 77.9 percent. HBMD's national peer group consists of all commercial banks in the United States with assets between $100 million and $300 million in a metropolitan area with three or more full service offices.

A further analysis was conducted by comparing HBMD's NLTD ratio with that of similarly situated banks. Banks that were considered to be similarly situated included Maryland-chartered banks headquartered in those jurisdictions within MSA 12580 (Baltimore-Towson, MD) that are west of the Chesapeake Bay with total assets of between $100 million and $300 million and having commercial loans as the principal loan product. The five similarly situated institutions to HBMD were Farmers & Merchants Bank, New Windsor State Bank, Harford Bank, Regal Bank & Trust, and Commerce First Bank. According to Call Report data from the 12 calendar quarters in the evaluation period, HBMD's average NLTD ratio of 80.1 percent compared reasonably with the average NLTD ratio of 95.6 percent for the five similarly situated banks.

Assessment Area Concentration

Table E that follows depicts the bank's home mortgage and small business lending during 2008, 2009, and the first nine months of 2010. As the data reflects, a majority of the bank's lending, by volume and dollar amount, was within its defined assessment area during the evaluation period, thus meeting the standards for satisfactory performance within this category.

Table E - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	**Number of Loans**					**Dollars in Loans (000s)**				
	Inside		**Outside**		**Total**	**Inside**		**Outside**		**Total**
	#	**%**	**#**	**%**	**#**	**$**	**%**	**$**	**%**	**$**
HMDA										
2008	11	68.8	5	31.2	16	4,292	65.3	2,277	34.7	6,569
2009	12	80.0	3	20.0	15	3,620	73.8	1,288	26.2	4,908
*YTD 2010	4	66.7	2	33.3	6	756	73.6	271	26.4	1,027
Subtotal	27	73.0	10	27.0	37	8,668	69.3	3,836	30.7	12,504
Small Business										
2008	20	69.0	9	31.0	29	7,296	76.4	2,250	23.6	9,546
2009	19	70.4	8	29.6	27	5,031	65.3	2,675	34.7	7,706
*YTD 2010	22	64.7	12	35.3	34	5,350	67.6	2,560	32.4	7,910
Subtotal	61	67.8	29	32.2	90	17,677	70.3	7,485	29.7	25,162
Total	**88**	**69.3**	**39**	**30.7**	**127**	**26,345**	**69.9**	**11,321**	**30.1**	**37,666**

Source: HMDA LAR (2008 and 2009) and Bank Records
** January 1, 2010 to September 30, 2010*

An analysis of the above table reveals that a majority of the loans originated by HBMD during the evaluation period were located inside of the assessment area, in terms of both number and dollar volume. Overall, 69.3 percent of the number of loans and 69.9 percent of the dollar volume of loans were made within the bank's assessment area during the evaluation period. While the number and dollar volume of overall home mortgage and small business loan originations decreased from 2008 to 2009, the number of home mortgage loans within the assessment area increased in 2009 compared to 2008. The bank's overall performance in this category is considered satisfactory.

Geographic Distribution

This segment of the performance evaluation assesses the bank's performance in addressing the credit needs in the low-, moderate-, middle-, and upper-income census tracts in the bank's overall assessment area. As previously discussed, the bank's overall assessment area contains 587 census tracts, of which 47.2 percent are low- or moderate-income census tracts. Four of the bank's seven offices are located in low- or moderate-income census tracts.

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Table F and Table G, respectively, depict the bank's geographic distribution of home mortgage and small business loans throughout the overall assessment area during the evaluation period.

Table F – Distribution of HMDA Loans by Income Category of the Census Tract

Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)		2008		2009		Total	
		2008	2009	#	%	#	%	#	%
Low	6.2	5.8	3.7	4	36.3	4	33.3	8	34.8
Moderate	27.5	28.2	21.5	3	27.3	4	33.3	7	30.4
Middle	46.4	47.0	48.3	2	18.2	4	33.3	6	26.1
Upper	19.9	19.0	26.5	2	18.2	0	0.0	2	8.7
NA	0.0	0.0	0.0	0	0.0	0	0.0	0	0.0
Total *	**100.0**	**100.0**	**100.0**	**11**	**100.0**	**12**	**100.0**	**23**	**100.0**

Source: U. S. Census, HMDA LAR (2008 and 2009), and HMDA Aggregate Data (2008 and 2009)
** May not added to 100 percent due to rounding.*

Home Mortgage Loans

<u>Low-Income Census Tracts</u>
HBMD operates three banking offices in low-income census tracts. When comparing the aggregate data for the years 2008 and 2009, the number of loans originated by the bank in low-income census tracts is significantly higher for both years. The bank's lending performance in low-income geographies during 2008 and 2009 was also significantly greater than the percentage of owner-occupied housing units (6.2 percent) located in low-income census tracts.

Moderate-Income Census Tracts
HBMD operates one banking office in a moderate-income census tract. The bank's percentage of home mortgage loan originations for 2008 was consistent with both aggregate lending performance and the percentage of owner-occupied housing units in moderate-income geographies within the bank's assessment area. The percentage of the bank's home loan originations in 2009 was higher than both the aggregate lending performance and assessment area demographics.

Summary
The bank's overall percentage volume of home mortgage loans in the low- and moderate-income census tracts compares favorably with the aggregate data and the percentages of owner-occupied housing units in these census tracts. A further analysis of lending data showed that the bank's home mortgage lending during both 2008 and 2009 was heavily concentrated in the assessment area geographies in MSA 12580, that is, in the City of Baltimore and Baltimore County. HBMD made only one HMDA loan during the year 2008 in geographies within its assessment area in MD 47894, that is, in Prince George's County. The one HMDA loan was a home improvement loan in the amount of $30,000 on the security of a non-owner-occupied property located in a moderate-income census tract. The analysis also showed that HBMD did not make any HMDA-reportable loans in Prince George's County during the year 2009.

Overall, the bank's geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area; however, less weight is being placed on home mortgage loan originations as such lending is not the bank's primary lending focus, and there are more small business loan originations. Please note that the bank's performance by dollar volume mirrored its performance by number and was therefore not presented.

Small Business Loans

Small business loans originated within the bank's assessment area during 2008 and 2009 were reviewed to determine the distribution of loans among the various census tracts. Overall, the geographic distribution of the small business loans originated among the low- and moderate-income census tracts within the assessment area reflects reasonable penetration. Table G that follows depicts HBMD's small business loan originations within the assessment area for the years 2008 and 2009. The distribution of lending to businesses in the different census tract categories is detailed by number and percentage of total loans.

Table G – Distribution of Small Business Loans by Income Category of the Census Tract								
Census Tract Income Level	**% of Non-Farm Businesses**		**2008**		**2009**		**Total**	
	2008	**2009**	**#**	**%**	**#**	**%**	**#**	**%**
Low	7.5	7.2	3	15.0	7	36.8	10	25.6
Moderate	28.0	27.8	7	35.0	7	36.8	14	35.9
Middle	45.6	45.5	7	35.0	5	26.4	12	30.8
Upper	18.9	19.5	3	15.0	0	0.0	3	7.7
$0/NA Income	<0.1	<0.1	0	0.0	0	0.0	0	0.0
Total	**100.0**	**100.0**	**20**	**100.0**	**19**	**100.0**	**39**	**100.0**

Source: U. S. Census and Bank Records

Low-Income Census Tracts

For the two years combined, HBMD originated 25.6 percent, by number, of its small business loans in low-income census tracts. When viewing each year separately, the number of the bank's loan originations significantly exceeded the percentage of non-farm businesses located in low-income census tracts for both years 2008 and 2009. Small business lending performance in 2008 was consistent with the percentage of low-income census tracts (14.5 percent) within the assessment area, while 2009 lending performance substantially exceeded the percentage of such geographies in the assessment area.

Moderate-Income Census Tracts

For the two years combined, HBMD originated 35.9 percent of its small business loans in moderate-income census tracts. The bank's lending performance exceeded the percentage of non-farms businesses located in moderate-income geographies during both 2008 and 2009, and lending performance improved from 2008 to 2009 as well despite a slight decline in overall small business lending. Lending performance for both years also exceeded the percentage of moderate-income census tracts in the bank's assessment area.

Summary

A further analysis of the bank's small business lending showed that it was heavily concentrated in geographies within the City of Baltimore and Baltimore County. During 2008 the bank originated two small business loans within Prince George's County, one each in a middle-income and an upper-income geography. During 2009, the bank originated one small business loan within Prince George's County in a moderate-income census tract. As with home mortgage lending, bank management indicated that it had reduced lending within Prince George's County in order to maintain acceptable asset quality due to high levels of delinquencies and foreclosures within that jurisdiction.

Based on HBMD's overall penetration of low- and moderate-income census tracts in its assessment area, the distribution of small business loans reflects reasonable penetration throughout the assessment area. The bank's performance by dollar volume was consistent with its performance by number and was therefore not presented.

Borrower Profile

This category evaluates the bank's record of home mortgage lending to low-, moderate-, middle-, and upper-income borrowers. Borrower incomes are compared to the Department of Housing and Urban Development (HUD) adjusted median family income figures for the year in which the loans were originated. These figures are displayed in Table C set forth previously and can also be obtained at HUD's website – www.huduser.org.

This category also focuses on the number and dollar volume of loans to small businesses. The Community Reinvestment Act (CRA) regulation defines small business loans as loans with original balances of $1 million or less.

Overall, the distribution of borrowers reflects, given the demographics of the assessment area, a reasonable penetration among retail customers of different income levels and business customers of different sizes.

Home Mortgage Loans

Home mortgage loans were reviewed to evaluate HBMD's record of lending to low-, moderate-, middle-, and upper-income borrowers. Penetration among low-income home loan borrowers is reasonable, while home loan lending to moderate-income borrowers is poor.

Table H that follows depicts the bank's home mortgage loan originations within the assessment area. The distribution of lending to borrowers within the income categories is detailed by number volume percentage, as is aggregate loan originations in the bank's assessment area for 2008 and 2009. Please note that the bank's performance by dollar volume was consistent with its performance by number and was therefore not presented.

Table H – Distribution of Home Mortgage Loans by Borrower Income (By Number)

Borrower Income Level	% of Total Families	Aggregate Lending Data (% of #)		2008		2009		Total	
		2008	2009	#	%	#	%	#	%
Low	26.1	11.5	11.8	2	18.2	3	25.0	5	21.7
Moderate	20.6	28.6	24.4	0	0.0	0	0.0	0	0.0
Middle	22.7	27.2	22.4	1	9.1	1	8.3	2	8.7
Upper	30.6	26.6	25.6	2	18.2	5	41.7	7	30.5
$0/NA* Income	0.0	6.1	15.8	6	54.5	3	25.0	9	39.1
Total	**100.0**	**100.0**	**100.0**	**11**	**100.0**	**12**	**100.0**	**23**	**100.0**

Source: U. S. Census, HMDA LAR (2008 and 2009), and HMDA Aggregate Data (2008 and 2009)

Low Income Borrowers

Home loan originations for the two years revealed that 21.7 percent of the bank's loan originations were to low-income borrowers. The bank's loan originations to such borrowers exceeded aggregate lending data in both 2008 and 2009. The bank's HMDA loan originations to low-income borrowers compared reasonably to the assessment area demographic data in 2009, while lending to low-income borrowers was below demographics in 2008.

Moderate-Income Borrowers

The bank did not make any HMDA loans to moderate-income borrowers during 2008 or 2009. Aggregate lending data shows that all HMDA lenders in HBMD's assessment area made 28.6 percent of HMDA loans to moderate-income borrowers in 2008 and 24.4 percent in 2009. Assessment area demographic data shows that 20.6 percent of all families within the HBMD assessment area are moderate-income.

Summary

A further analysis of the bank's HMDA lending revealed that the bank made one HMDA loan in Prince George's County during 2008. This loan was made to a middle-income borrower. As noted previously, HBMD did not make any HMDA-reportable loans in Prince George's County during the year 2009.

For both years 2008 and 2009, the bank made a substantial majority of its home loans to upper-income borrowers and borrowers for which income was reported as NA. Such loans accounted for 72.7 percent of all HMDA loans in 2008 and 66.7 percent of HMDA loans in 2009. The loans for which income was reported as NA were made either to officers, directors, or employees of the bank, or to non-natural persons, that is, to business entities.

Based on the bank's lending distribution to low- and moderate-income borrowers when compared to aggregate data and assessment area demographics, the bank's home loan lending activity to low-income borrowers is reasonable, while lending to moderate-income borrowers is poor. However, this lending category is not heavily weighted in this evaluation, as home mortgage lending is not the bank's primary lending focus.

Small Business Loans

This category evaluates the bank's record of lending to businesses of different sizes. Penetration among business customers is considered reasonable. Please note that the bank's performance by dollar volume mirrored its overall performance and is therefore not presented in this evaluation.

This test focuses on the number and dollar volume of loans to small businesses. The CRA regulations define small business loans as loans with original balances of $1 million or less. The following tables (Table I and Table J) present the distribution of the bank's small business lending according to the gross annual revenues of the borrower and according to loan size.

Table I – Distribution of Small Business Loans by Gross Annual Revenues of Business

Gross Annual Revenues (000s)	**% of Non-Farm Businesses**		**2008**		**2009**		**Total**	
	2008	**2009**	**#**	**%**	**#**	**%**	**#**	**%**
≤ $1,000	67.6	77.2	14	70.0	13	68.4	27	69.2
> $1,000 or NA	32.4	22.8	6	30.0	6	31.6	12	30.8
Total	**100.0**	**100.0**	**20**	**100.0**	**19**	**100.0**	**39**	**100.0**

Source: U. S. Census and Bank Records

As shown in Table I, for the two-year period of this evaluation a majority of the bank's small business loan originations by number were to businesses with gross annual revenues of $1 million or less. During the evaluation period, 69.2 percent of the total number of small business loans were to such businesses. This penetration of loans demonstrates the bank's willingness to meet the credit needs of the smaller businesses within the assessment area. The bank's distribution of small business loans by the gross annual revenues of the business is considered reasonable and is generally consistent with the percentage of "small businesses" in the assessment area.
Table J reflects the distribution of the bank's small business lending according to loan size during the evaluation period.

Table J – Distribution of Small Business Loans by Loan Size						
Loan Size (000s)	**2008**		**2009**		**Total**	
	#	**%**	**#**	**%**	**#**	**%**
≤ $100	4	20.0	6	31.6	10	25.7
> $100 ≤ $250	7	35.0	6	31.6	13	33.3
> $250 ≤ $1,000	9	45.0	7	36.8	16	41.0
Total	**20**	**100.0**	**19**	**100.0**	**39**	**100.0**

Source: Bank Records

As shown in Table J above, approximately 59 percent of all small business loans made by HBMD during the evaluation period were in amounts of $250,000 or less. During 2008, loans in amounts of $250,000 or less accounted for 55.0 percent of all small business loan originations. This performance improved in 2009, when 63.2 percent of all small business loan originations were in amounts of $250,000 or less. This distribution represents a reasonable penetration of small business loans among businesses of different sizes and indicates that the bank is striving to meet the credit needs of small- and medium-sized businesses. Small- and medium-sized businesses typically require loans in smaller dollar amounts than do large businesses. Consequently, the proportion of small business loans originated in amounts less than $250,000 is indicative of the bank's willingness to meet the credit needs of these smaller sized businesses.

Response to CRA Complaints

The bank has not received any complaints regarding its CRA performance. This factor was not considered in assigning the overall rating.

COMMUNITY DEVELOPMENT TEST

The Community Development Test evaluates the institution's record of helping to meet the community development needs of its assessment area by considering an institution's community development loans, community development investments, and community development services. The adequacy of the bank's responsiveness to assessment area community development needs is evaluated based on the bank's capacity for community development activities, its assessment area's need for community development activities, and the availability of community development opportunities in the assessment area.

Community development activities include:

1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
2) Community services targeted to low- or moderate-income individuals;
3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; or
4) Activities that revitalize or stabilize low- or moderate-income tracts.

As an Intermediate Small Bank, HBMD has the flexibility to allocate its resources among community development loans, qualified investments, and community development services in amounts that it reasonably determines are most responsive to community development needs and opportunities.

Overall, the bank's community development performance demonstrates adequate responsiveness to community development needs. While much of the bank's community development activities are centered in community development loans, the bank also reported qualified investments in the form of cash donations and has provided the area with community development services. The community development activities have focused mainly on the needs of the Baltimore County and Baltimore City portions of the assessment area.

Community Development Loans

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or residential mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

Qualified community development loans for the evaluation period total $37.2 million, including $3.7 million attributed directly to the bank and $33.5 million attributed to its holding company, Harbor Bankshares Corporation (HBC). The level of community development lending has decreased since the prior CRA evaluation, which noted $71.6 million in community development loans, including $21.6 million attributed to the bank and $50.0 million attributed to HBC.

HBMD originated or renewed 12 community development loans totaling approximately $3.7 million. This level of lending represents 1.4 percent of the bank's total assets and 1.8 percent of the bank's loan portfolio as of September 30, 2010. All of the community development loans made or renewed in the bank's assessment area during the evaluation period were to entities located and operating in the City of Baltimore and/or Baltimore County. During the evaluation period, HBMD did not make any community development loans to entities located or operating in Prince George's County.

The community development loan originations and renewals during the current evaluation period are presented below. Based on current CRA guidance for community development lending at Intermediate Small Banks, financial institutions have the option to have its small business loans that also meet the definition of community development evaluated as either small business loans or community development loans. HBMD chose to include small business loans numbered below as 1 and 2 in 2008, numbered 2 and 3 in 2009, and numbered 3 in 2010 as community development loans.

2008

1. A $160,000 loan made in January 2008 to a nonprofit organization that provides medical services to underserved low- and moderate-income persons in the Park Heights area of northwestern Baltimore City.

2. A $400,000 loan made in December 2008 to another nonprofit organization that provides medical services to low-and moderate-income persons in northwestern Baltimore City.

2009

1. A $100,000 loan made in July 2009 to a nonprofit organization that provides foster care services to low- and moderate-income persons and families in Baltimore City and Baltimore County.

2. A $400,000 participation in a loan made in July 2009 to the same nonprofit organization that provides foster care services to low- and moderate-income persons and families in Baltimore City and Baltimore County.

3. A $976,000 loan made in September 2009 to a nonprofit organization providing medical services to low- and moderate-income persons and families in north central Baltimore City.

4. A $100,000 loan made in October 2009 to a nonprofit organization that provides health and other related services to low- and moderate-income persons in Baltimore City who have AIDS or HIV.

5. A $1.1 million loan made in December 2009 to a nonprofit organization providing health and other services to low- and moderate-income persons with developmental disabilities in Baltimore City and Baltimore County.

2010

1. A $10,125 vehicle loan made in March 2010 to a nonprofit organization that provides foster care services to low- and moderate-income persons and families in Baltimore City and Baltimore County.

2. A $100,000 loan made in June 2010 to a nonprofit organization that oversees implementation of the Park Heights Master Plan, a plan for the redevelopment of an economically distressed area in northwestern Baltimore City.

3. In June 2010, the bank renewed the $160,000 loan made in January 2008 to a nonprofit organization that provides medical services to underserved low- and moderate-income persons in the Park Heights area of northwestern Baltimore City.

4. In October 2010, the bank renewed the $100,000 loan made in October 2009 to a nonprofit organization that provides health and other related services to low- and moderate-income persons in Baltimore City who have AIDS or HIV.

5. In November 2010, the bank renewed the $100,000 loan made in July 2009 to a nonprofit organization that provides foster care services to low- and moderate-income persons and families in Baltimore City and Baltimore County.

As noted previously, the qualified community development loans include $33.5 million in loans attributed to the bank's holding company, Harbor Bankshares Corporation (HBC). HBC, an approved Community Development Entity (CDE), was awarded a total of $50 million in tax credit allocations by the Treasury Department's Community Development Financial Institutions Fund in 2008 and $20 million in 2009. The New Markets Tax Credits (NMTC) Investment Fund was established for the development of economically distressed areas. The objective is to encourage privately funded investments in qualified low-income communities. Investors receive up to 39 percent tax credits over a seven year period. Eligible investors and borrowers must be located in a qualified low-income community and conduct business to some extent in that community. Residential real estate investments may qualify if they promote a certain level of home ownership. Since the previous evaluation, HBC has allocated NMTCs as follows:

- In 2009, HBC made a $15 million Qualified Low-Income Community Investment in the form of a loan to a nonprofit organization charged with the redevelopment of an economically distressed area in the central-eastern section of the City of Baltimore. The funds were used to acquire eroding properties, relocate displaced residents, and construct or renovate better housing units.

- In 2010, HBC extended an $18.5 million loan under the NMTC program to a nonprofit private sector high school in the southeastern section of the City of Baltimore that prepares low-income children to attend college. Funds were used to expand and upgrade the school's facilities.

- In 2010, HBC committed to closing a $16.3 million NMTC loan to construct a hotel in the southeastern section of the City of Baltimore. The hotel is part of a larger project to revitalize an economically distressed area and is expected to provide up to 640 full-time-equivalent jobs. The commitment had not been funded as of the date of this evaluation.

Part of the community development definition is promoting activities that revitalize or stabilize low-or moderate-income geographies. The bank is participating in the Façade Improvement Program in Westport, a neighborhood located in a low-income geography in the southwestern section of the City of Baltimore. The façade improvement program allows property owners or tenants (with the property owner's approval) to apply for a matching grant to improve the property's façade, such as a new porch, stairs, doors, windows, a new porch roof, or a new sign (for businesses). Grants are awarded for 50 percent of the project cost up to a total grant amount of $2,000. The applicant pays for the first one-half of the project cost, (plus amounts above the matching grant amount if the project costs more than $4,000). Program documentation specifically mentions that HBMD offers home improvement loans at competitive rates to help applicants cover their portion of the costs of the project. Although these loans are included in the evaluation of home mortgage lending and thus are not included in the totals for community development loans, they are mentioned here for qualitative consideration. Since the last evaluation period, the bank originated two home improvement loans totaling $2,244 under this façade improvement program.

Qualified Investments

The bank's level of community development investments was reviewed given the performance context and the capacity of the bank. A qualified investment for the purposes of this evaluation is a lawful investment, deposit, donation, or grant that has community development as its primary purpose.

During the evaluation period, the bank's qualified investments totaled $10,440 and consisted exclusively of cash donations to various local charities providing services primarily to low- and moderate-income individuals. The donations mostly benefited organizations operating in the Baltimore County and Baltimore City portions of the assessment area. The level of qualified donations has declined since the prior CRA evaluation, which noted that the bank had provided 64 donations totaling $50,000 to various local charities benefiting low- and moderate-income individuals.

Community Development Services

This section of the Community Development Test evaluates the institution's record of providing community development services, including the provision and availability of services to low- and moderate-income people. A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical assistance.

Services

During the evaluation period, HBMD provided a number of community development services that directly benefited low- and moderate-income people within the bank's designated assessment area. The services consisted primarily of bank management and staff involvement with community development organizations that service the Baltimore County and Baltimore City portions of the assessment area. The bank provided limited community development services to organizations serving Prince George's County.

A senior member of bank management continues to act as a catalyst in bringing members of the community, other financial institutions and investors together so that projects that benefit the needs of low- and moderate-income people may come to fruition. Members of bank management also continue to reach out to the community as Board members, members of financial committees, and other memberships with numerous nonprofit organizations throughout the assessment area. In addition, bank employees provide on-going financial literacy training to a variety of groups including schoolchildren, senior citizens, former prisoners, college students, and church organizations, most of whom are low- or moderate-income individuals. The following are examples of some of the community development services provided:

- Caroline Center, Inc. - The mission of this organization is to enable unemployed and underemployed women find work in a career with the potential for growth and advancement. A member of bank management served on the Board of this organization through 2010.

- Downtown Partnership of Baltimore, Inc. (DPB) - DPB is a nonprofit corporation working with the public and private sectors to make downtown Baltimore a great place for businesses, employees, residents, and visitors. The efforts of this organization have made the downtown area cleaner and safer, attracted new residents and retailers, and increased investment. Many of DPB's programs are funded directly by the support of its members and sponsor organizations. Various members of Bank management participated as committee members through 2010, and remain involved in the organization's events.

- East Baltimore Development, Inc. (EBDI) - EBDI supports the families on the eastside of the City of Baltimore. The East Baltimore Community comes together for celebration and fun while also sharing information and resources to assist neighborhood families in areas such as health, home maintenance, social services, and workforce development. A member of bank management served as the Chairman of the Board until 2009.

- Goodwill Industries of the Chesapeake, Inc. (Goodwill) – Goodwill is a nonprofit workforce development agency and network of businesses whose mission is to provide career development, employment and related social services to assist people with special needs to enjoy the dignity and benefits of working. A senior member of bank management served as a Board member of this organization until 2009.

- Park Heights Community Development Corp. (PHCD) – PHCD is a community development authority whose purpose is to assist agencies in the implementation of the Park Heights Master Plan. This comprehensive plan includes recommendations that address infrastructure, land use, and human services. Various bank officers have served, and currently serve, on the Board of this organization.

- Potential Unlimited – Potential Unlimited is a nonprofit organization that inspires hundreds of inner city youths. The organization's mission is to provide early intervention and self-development programs to at-risk youth to help them identify and realize their academic, personal, and career goals. A member of bank management served on the Board of this organization until 2010.

- St. James Development Corp. (SJDC) – SJDC is a nonprofit organization whose mission is to help low- to moderate-income families, especially elderly households, through community rehabilitation projects, engage in the promotion of social welfare, and uplift the well-being of the community by providing housing, day care, educational and tutoring programs and social services. A member of bank management serves on the Board of this organization.

Branch/ATM Delivery Systems

During the evaluation period, HBMD closed one branch office in a moderate-income census tract and opened one branch office in a low-income census tract in the City of Baltimore. The bank has two other branch offices in low-income census tracts. In addition to the three offices located in low-income census tracts, the bank's main office is in a moderate-income census tract in the central business district of the City of Baltimore. The days and hours of operation of the bank's branch offices meet those of other banks operating in the assessment area. All branch locations offer Saturday hours, including some drive-up facilities, and extended hours on various days of the week. HBMD offers a variety of alternative delivery systems including an ATM network, telephone banking, and an Internet website. There is an on-site ATM located on the premises of all of the banking offices that affords customers 24-hour access to their accounts. The telephone banking system is available 24-hours a day 7 days a week. This service allows customers to perform various banking functions by accessing a toll-free number. Customers are able to use an automated system to receive current account balances, transfer funds between accounts, and verify specific transactions, such as which checks have been paid, verify the date and amount of the last deposit, and obtain rate and product information. The bank's website, offers customers a wide variety of banking services. Customers can use the website to transfer funds, review account history, pay bills, find branch locations/hours, view rate and product information, and contact customer service through electronic mail. In conclusion, the bank's branch network provides much needed banking services to the low- and moderate-income communities it serves. These offices provide financial services to the low- and moderate-income households in the areas surrounding the bank's main office and branches.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's record of complying with anti-discrimination laws (i.e., the Fair Housing Act and Regulation B - Equal Credit Opportunity) is satisfactory. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs were identified.

APPENDIX A - GENERAL CRA DEFINITIONS

GEOGRAPHY TERMS

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Statistical Area (MSA/MD): The Metropolitan Statistical Areas have at least one urbanized area of 50,000 or more population. There are 11 instances (Boston, Chicago, Dallas, Detroit, Los Angeles, Miami, New York, Philadelphia, San Francisco, Seattle, and Washington) where a Metropolitan Statistical Area containing a single core with a population of 2.5 million or more has been subdivided to form smaller groupings of counties referred to as

Metropolitan Divisions (One or more large population centers and adjacent communities that have a high degree of economic and social integration.) Each MD must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MD comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MDs are composed of cities and towns rather than whole counties.

Combined Statistical Area (CSA): The larger area of which MSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, it a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX B - INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.