



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 21, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Cambridge
Charter Number 2498

304 High Street
Cambridge, MD 21613

Office of the Comptroller of the Currency

Washington, DC Satellite Office
395 E Street SW, Suite 850
Washington, DC 20024

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 Satisfactory.

The Lending Test is rated: Satisfactory.

The major factors supporting this rating include:

- The bank's average loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance;
- A substantial majority of the bank's loans were originated in the bank's assessment area;
- The bank's distribution of loans represents a reasonable penetration among individuals of different income levels and businesses of different sizes;
- The bank's distribution of loans represents a reasonable dispersion throughout census tracts of different income levels;

SCOPE OF EXAMINATION

This Small Bank examination assesses the bank's performance under the lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area through its lending activities. The evaluation period for the lending test is January 1, 2005 through December 31, 2007, as this is representative of the bank's lending strategy since the last Community Reinvestment Act (CRA) examination. Based upon the bank's business strategy and the loan balances outstanding at December 31, 2007, we determined the bank's primary loan product was small business lending. Therefore, conclusions regarding the bank's lending performance are based on small business lending. To perform the lending test, we utilized a lending report generated by the bank to select a random sample of twenty small business loans that were originated or purchased during the evaluation period.

DESCRIPTION OF INSTITUTION

Established in 1880, the National Bank of Cambridge (NBC) is an intrastate community bank headquartered in Cambridge, Maryland. As of December 31, 2007, NBC had total assets of \$222 million and tier one capital of \$36 million. NBC is a wholly owned subsidiary of Delmarva Bancshares Inc, a one-bank holding company headquartered in Cambridge, Maryland. As of December 31, 2007, the holding company's total assets were \$222 million. NBC owns 20% of Delmarva Bank Data Processing Center. The bank and its holding company do not have any operating subsidiaries.

As of March 31, 2008, NBC operates three full service branches in Dorchester County. All three branches have Automated Teller Machines (ATMs), and offer drive-through services. In addition to the ATMs attached to the aforementioned branches, NBC has two stand alone ATM(s). The three branch ATMs accept deposits while the two stand alone ATMs do not. All branches offer extended Friday and Saturday hours. Since their last evaluation, NBC has not opened or closed any branches. There were no mergers or acquisitions during the evaluation period.

NBC is a full service community bank offering a broad range of retail banking and commercial banking. Its retail services include checking accounts, savings programs, money-market accounts, consumer loan programs, and residential mortgages. The bank's commercial services include business deposit accounts, revolving lines of credit, and commercial mortgages. NBC also offers online access to customer accounts through their website.

As of December 31, 2007, NBC reported net loans of \$151 million or 68% of total assets. The loan portfolio is comprised as follows:

Loan Portfolio Summary by Loan Product December 31, 2007	
Loan Category	% of Outstanding Dollars
Residential Real Estate Loans	22%
Commercial Real Estate Loans	48%
Commercial & Industrial Loans	13%
Agricultural Loans	7%
Construction and Development Loans	4%

Competition in the bank's assessment area is strong and includes local community banks and branches of larger regional and national institutions. NBC's primary competitors in the assessment area are Talbot Bank of Easton Maryland, Provident State Bank, Inc., Bank of the Eastern Shore, Bank of America, NA, Mercantile Eastern Shore Bank, SunTrust, and BB&T.

There are no financial or legal impediments to hinder NBC's ability to help meet the credit needs of the community it services.

NBC's last Public Evaluation (PE) was dated October 28, 2002, and NBC was assigned an overall "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

NBC has designated its assessment area (AA) to include all of Dorchester County, all of Caroline County, and six census tracts (CT) in the eastern half of Talbot County. This AA is located on Maryland's Eastern Shore in a non-metropolitan statistical area (MSA). The AA complies with the legal requirements of CRA and does not arbitrarily exclude low- and moderate- income areas.

NBC's AA is described below.

Demographic Information for NBC's AA – Non MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	22	4.55%	31.82%	54.55%	9.09%
Population by Geography	86,674	4.55%	25.01%	61.59%	8.85%
Owner-Occupied Housing by Geography	24,578	2.05%	22.53%	64.92%	10.50%
Businesses by Geography	7,226	3.00%	26.42%	61.40%	9.18%
Farms by Geography	531	0.38%	17.89%	73.07%	8.66%
Family Distribution by Income Level	23,996	22.40%	19.54%	23.95%	34.11%
Household Distribution by Income Level	34,677	4.60%	25.84%	60.16%	9.40%
Census Median Family Income (MFI)		\$47,215	Median Housing Value		\$120,711
HUD-Adjusted MFI: 2007		\$50,103	Unemployment Rates:		
			Dorchester County		6.5%
			Caroline County		4.9%
			Talbot County		4.0%
Families Below the Poverty Level		11.40%			

Source: 2000 U.S. Census Data; 2007 HUD updated MFI; unemployment rate as of March 2008

NBC's AA consists of 22 census tracts. Dorchester County has nine census tracts, Caroline County has seven census tracts, and Talbot County has six (in their AA). Overall, this AA has 1 low-income census tract, 7 moderate-income census tracts, 12 middle-income census tracts, and 2 upper-income census tracts.

The 2000 U.S. Census reported the total population of the AA at 86,674. Within the AA, there are 23,996 families and 34,677 households. There are 38,702 housing units, of which, 63.51% are owner-occupied, 26.07% are rental-occupied, and 10.42% are vacant housing units. The median housing cost is \$120,711.

The 2000 median income was \$47,215, and the 2007 HUD updated MSA median family income was \$50,103. Approximately, 22.40% of the families are low-income, 19.54% are moderate-income, 23.95% are middle-income, and 34.11% are upper-income. Approximately 11.40% of households are below the poverty level.

According to the 2007 business demographics, there are a total of 7,226 businesses in the AA. Approximately 66.57% of the businesses reporting have revenues less than \$1 million, approximately 5.07% have revenues greater than \$1 million, and the revenue was not reported for approximately 28.37% of the businesses. Approximately 3.00% of businesses are located in the low-income geography, 26.42% are located in moderate-income geographies, 61.40% are located in middle-income geographies, and 9.18% are located in upper-income geographies.

Competition in the bank's assessment area from other financial institutions is strong. The bank's competitors include several local community banks. As of June 30, 2007, NBC had a 9.37% deposit market share, ranking it 4th among 15 institutions in the market. The bank's major competitors are Talbot Bank of Easton MD (ranked 1st with a 21.21% market share and 6 branches), Mercantile Eastern Shore Bank (ranked 2nd with a 14.35% market share and 10 branches), and Provident State Bank INC (ranked 43rd with a 9.64% market share and 9 branches).

The current local economy for the AA is characterized as stable. Economic activity is relatively diverse with manufacturing, agriculture, tourism, retail trade, and healthcare services being the primary economic activities. The major employers in the area are Allen Family Foods, Hyatt Regency Chesapeake Bay Resort, Solo Cup, Shore Health System, and Wal-mart.

According to the Bureau of Labor Statistics, the March 2008 unemployment rate for Dorchester County was 6.5%, Caroline County was 4.9% and Talbot County was 4.0%. The state unemployment rate was 3.6%, and the national unemployment rate was 5.1%.

During our examination, we made a community contact with an organization that has a primary focus of affordable housing in Talbot and Dorchester counties and reviewed a recent community contact with a small business development organization that serves all three counties. The contacts identified the need for affordable housing and small business support. The community contacts feel there are opportunities for local financial institutions to support the development and construction of low- and moderate-income housing; either through donations, direct participation from employees, or by setting up a fund program specifically for affordable housing. The community contacts stated there are opportunities for local institutions to take a leadership role and create specialized loan products/programs (i.e. first time homebuyer programs, etc) to support affordable housing and small business development. The community contacts stated there is a need for local financial institutions to work more closely with individuals with lower credit scores, in an effort to get them approved for small business loans. There is a need and ample opportunities for local institutions to provide financial literacy training to small business owners. Also, there is a need for local financial institutions to use SBA programs, which tend to offer lower interest rate and terms to the borrower.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

NBC's performance under the lending test is satisfactory. NBC's loan-to-deposit ratio is reasonable. A majority of NBC's primary loan product was originated within the bank's AA. NBC was found to have reasonable penetration among business of different sizes. NBC's distribution of loans throughout census tracts of different income levels reflects a reasonable dispersion throughout the bank's AA.

Loan-to-Deposit Ratio

NBC’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the credit needs of the AA. The loan-to-deposit ratio meets the standards for satisfactory performance. The bank’s net loan-to-deposit ratio averaged 68.64% over the last 21 quarters since the last CRA examination. This ratio ranged from a quarterly low of 47.69% to a quarterly high of 82.70% during the time period.

The average net loan-to-deposit ratio for a similarly sized national bank in the AA was 78.10% over the same 21 quarters. The ratio ranged from a quarterly low of 64.79% to a quarterly high of 85.44% during that time period. While the bank’s net loan-to-deposit ratio is slightly less favorable than the other financial institution of similar size and product offerings in the AA, it is considered reasonable based on the bank’s business strategy and competition. NBC’s loan-to-deposit ratio has also been steadily increasing and has not fallen under 70% over the last 2 years

Lending in Assessment Area

A substantial majority of NBC’s small business loans which were originated during the evaluation period were originated within the AA. Based upon these results, NBC exceeds the standard for satisfactory performance for lending in the AA. An analysis of small business loans disclosed that 95% of the number and 82% of the dollar amount of loans were originated in the AA.

The following table is an analysis of the distribution of small business loans.

Table 1 - Lending in NBC's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	19	95%	1	5%	20	1,941,000	82%	428	18%	\$2,369,000
Totals	19	95%	1	5%	20	1,941,000	82%	428	18%	\$2,369,000

Source: Sampled business loan data 1/1/2005-12/31/2007

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

The distribution of loans reflects reasonable penetration among businesses of different sizes, and NBC’s record of lending to businesses of different sizes meets the standard for satisfactory performance. The percentage of small loans to small businesses (businesses with gross annual revenues of \$1 million or less) is near to the percentage of businesses in the AA.

The following table details the bank’s performance in lending to businesses of different sizes.

Table 2A - Borrower Distribution of Loans to Businesses in NBC’s AA

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.57%	5.07%	28.37%	100%
% of Bank Loans in AA by #	60.00%	40.00%	0.00%	100%
% of Bank Loans in AA by \$	37.97%	62.03%	0.00%	100%

Source: small business loans sampled from 1/1/05 – 12/31/07

Geographic Distribution of Loans

The distribution of loans reflects reasonable dispersion throughout the bank’s AA. There were no conspicuous gaps identified within NBC’s AAs.

Based on our loan sample, NBC made no small loans to businesses in low-income geographies. The percentage of NBC’s small loans to businesses made in moderate-income geographies is near to the percentage of businesses that are located in these geographies. NBC’s performance is reasonable when considering there is only one low-income census tract in NBC’s AA and the bank is competing with several larger financial institutions for a limited number of opportunities to lend in this single low-income geography. In addition, NBC’s geographic distribution of business loans throughout the moderate-income geographies is comparable to the percentage of businesses within those geographies and is considered reasonable.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A – Geographic Distribution of Loans in NBC’s AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	3.00%	0.00%	26.42%	25.00%	61.40%	70.00%	9.18%	5.00%

Source: small business loans sampled from 1/1/05-12/31/07

Responses to Complaints

The National Bank of Cambridge did not receive any CRA related complaints during this evaluation 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.