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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

May 31, 1997

**First Union National Bank of Maryland
110 Congressional Lane
Rockville, Maryland 20852**

Charter Number 23118

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Financial Supervisory Agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First Union National Bank of Maryland**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **May 31, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DESCRIPTION OF CONTENTS

The balance of this document contains information presented in four sections. The sections are: **Performance Context, Summary of Institution's Performance, Discussion of Institution's Performance** and **Additional Information**.

The **Performance Context** section provides data about the bank, its direct and indirect (through affiliates) lending structure, and its delineated community. The **Summary of Institution's Performance** presents the bank's rating and performance highlights which are further discussed relative to the 12 assessment factors grouped under five performance categories (refer to **General Information**).

Performance Context

- Institution Profile
- Community Profile

Summary of Institution's Performance

- Institution's Rating
- Performance Highlights

Discussion of Institution's Performance

- Ascertainment of Community Credit Needs
- Marketing and Types of Credit Offered and Extended
- Geographic Distribution and Record of Opening and Closing Offices
- Discrimination and Other Illegal Credit Practices
- Community Development

Additional Information - Corporate and Local CRA Programs

PERFORMANCE CONTEXT

Institution Profile

First Union National Bank of Maryland (FUNB-MD) is a subsidiary of **First Union Corporation (First Union)**, a multi-bank holding company. First Union is the sixth largest banking company in the nation, with assets of **\$140 billion** as of year-end 1996.

First Union is headquartered in Charlotte, North Carolina, and owns ten national banks based in the District of Columbia, Florida, Georgia, Maryland, North Carolina, Pennsylvania, South Carolina, Tennessee, and Virginia. The January 1996 acquisition of the Newark, New Jersey, based *First Fidelity Corporation* represents an increase in total assets by approximately \$60 billion. This acquisition expands the company's presence in several northeastern states, including Maryland.

FUNB-MD has total assets of **\$4 billion** and operates 74 branch offices to provide financial services in two of the five Maryland Metropolitan Statistical Areas (MSAs). For FUNB-MD, a majority (75%) of the 12 counties and independent cities designated as part of a MSA in Maryland is included in the bank's community delineation. The *First Fidelity Bank, N.A. (FFB)* acquisition expands the bank's community delineations to include Carroll and Harford counties, as well as a larger territory in Baltimore City and Baltimore County. Based upon year-end 1996 total assets, the bank ranks as the fifth largest in the state; however, this status was achieved after the FFB merger which occurred during this evaluation period. Refer to the **Community Profile** section for more details on the community delineations.

Lending by affiliates also helps FUNB-MD identify and address community credit needs. For the First Union subsidiary banks, residential mortgage lending is largely consolidated at **First Union Mortgage Corporation (FUMC)**. FUMC processes mortgage loan applications and subsequently sells originations to First Union national bank affiliates or the secondary market. Another subsidiary of the holding company, **First Union Home Equity Bank, N.A.**, provides home equity financing in 35 states, including this bank's markets.

Notes:

LMI denotes low-and moderate-income (LMI). This means an individual or borrower income that is less than 80% of the area median income or, in the case of a geography, a median family income that is less than 80% of the respective MSA.

The **population statistics and income information** reflects data obtained from the 1990 Census and the United States Department of Housing and Urban Development (HUD).

Evaluation Period - The bank's previous CRA Performance Evaluation is dated April 11, 1994, when the bank had total assets of \$1.4 billion at year-end 1993; now it has **grown three times that size**, largely due to the *First Fidelity* acquisition. This Performance Evaluation reflects the bank's performance assessed since the previous evaluation through May 31, 1997, based primarily upon data for 1995 and 1996.

Community Profile

The population for the state of Maryland is 4.8 million, with 8% of the households living below the poverty level. Low- and moderate-income (LMI) families total 37%. As you can see from the following chart, the FUNB-MD communities include MSAs which comprise 80% of the state’s total population.

Delineated Communities within (MSAs)	Population (Based on 1990 Census Data)	1996 HUD MSA Median Family Income	LMI Families (as a % of Total Families)
Baltimore MSA: Anne Arundel, Baltimore, Carroll, Harford, and Howard Counties, and the independent city of Baltimore	2,348,000	\$52,400	37%
Washington, D.C. MSA (Maryland Portion): Montgomery, Prince Georges, and Frederick ¹ Counties	1,592,000	\$68,300	34%

The bank’s delineated communities are reasonable and do not arbitrarily exclude any low- and moderate-income areas. The following comments provide additional demographic information on the two MSAs served by FUNB-MD.

Baltimore MSA

The bank’s delineated community consists of six of the seven counties within this MSA. The counties consist of 577 census tracts with the following distribution: 10% low-income, 21% moderate-income, 43% middle-income, 24% upper-income, and 2% with no population. 10% of households live below the poverty level. The MSA median family income is \$52,400. The percentage of low-, moderate-, middle-, and upper-income families, within the bank’s delineated community are 19%, 18%, 24%, and 39%, respectively.

Washington, D.C. MSA (Maryland Portion)

The two Maryland counties that represent the bank’s delineated community is part of the multi-state Washington, D.C. MSA. The bank’s delineated community consists of 355 census tracts with the following distribution: 2% low-income, 24% moderate-income, 49% middle income, and 25% upper income. 4% of households live below the poverty level which is significantly lower than the 8% for the state of Maryland. The MSA median family income is \$68,300. The percentage of low-, moderate, middle, and upper income families, within the bank’s delineated community are 15%, 19%, 26%, and 40%, respectively.

¹ Consists of a partial county.

SUMMARY OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented, this institution is rated: **“Outstanding record of meeting community credit needs.”**

Performance Highlights:

- o FUNB-MD has developed loan programs to help meet community credit needs pertaining to affordable housing, small business, and consumer loans. This reflects responsive action to help meet identified credit needs.
- o The bank has expanded the market in which it offers its products and services to better address the needs and it has introduced new affordable mortgage products since June of 1996.
- o Residential real estate lending almost doubled in the last year from \$31 million in loan originations to \$59 million. This includes lending to address varied housing related needs such as:
 - affordable mortgage loans 169 totaling \$ 19 million
 - neighborhood development loans 1 totaling \$ 59 thousand
 - community partnership loans 1 totaling \$ 90 thousand
 - coalition mortgage loans 115 totaling \$ 8 million
 - housing assistance rehabilitation loans 20 totaling \$800 thousand
 - special home improvement loans 17 totaling \$317 thousandIn addition, two million dollars of student loans were originated for 1995 and 1996. All of these programs and lending volumes reflect the bank’s response to help meet community credit needs, particularly as it relates to LMI areas and borrowers.
- o Mortgage loans in LMI areas more than doubled in a single year and further indicates the bank’s responsiveness to help address one of the most pressing identified community credit needs. Bank records show 80 mortgage loan originations totaling \$3 million in 1995 compared to 172 totaling \$10 million in 1996.
- o FUNB-MD demonstrates significant efforts to help address community credit needs in all areas of the communities. These efforts include activities in LMI census tracts which have increased by about a third since the 1994 CRA public disclosure (from 235 to 324 LMI census tracts).

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- o In addition to the geographic growth experienced from the 1996 FFB merger, the asset growth ranks FUNB-MD as the fifth largest bank in the state with year-end 1996 assets of \$4 billion. The 1994 public disclosure is based upon assets of \$1.5 billion at year-end 1993.

- o FUNB-MD has demonstrated a leadership position and a high level of participation in development and redevelopment programs within its local communities.
 - Community development lending activity totals \$26 million for the review period.
 - This CRA Performance Evaluation highlights over half (\$15 million) of that activity where FUNB-MD provides affordable mortgage financing for 368 housing units.

DISCUSSION OF INSTITUTION'S PERFORMANCE

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- o FUNB-MD has effectively determined the credit needs of its delineated communities, including low- and moderate-income areas.**
- o The bank has responded pro-actively to these identified needs.**

Bank directors, officers, and employees at all levels have ongoing meaningful contacts with a large range of groups and individuals to ascertain community credit needs. FUNB-MD uses a formal officer call program as the primary method to ascertain community credit needs.

During the evaluation period, bank employees met with business owners (small and minority owned), community development corporations, housing advocacy groups, church leaders, representatives from city and county government, Realtors, and other community organizations. Through these contacts, the bank has established productive relationships that have resulted in public and private partnerships. These partnerships have assisted the bank in meeting credit needs pertaining to affordable housing, small business loans, and credit counseling.

The bank also used community dialogue meetings, known as Focus Groups, to discuss community development activities and credit needs in Montgomery and Prince Georges counties. Participants in these and other meetings represent a cross section of individuals with housing, business, religious, community, and governmental backgrounds that share relevant information concerning community credit needs.

FUNB-MD representatives document community contacts, ascertain credit needs, and submit quarterly reports to the bank's Self Assessment Committee (SAC). Information from these contacts are then used to develop action plans for the bank's delineated communities. This plan helps the bank address identified credit needs which include: affordable housing loans (single- and multi-family), home improvement loans, consumer loans, small business loans, secured credit cards, and small business credit cards. These community credit needs were verified during our examination by reviewing community contact information, prior examination findings, as well as economic and demographic data.

The Board of Directors and senior management are highly proactive and responsive in addressing community credit needs. FUNB-MD offers special loan products with flexible lending criteria to

help make credit more widely available throughout its communities. Examples of these products include: Special Vehicle Loan, Special Home Improvement Loan, Secured MasterCard, Visa Business Card, and several affordable home mortgage loans. The characteristics of these loan programs and the bank's *Small Business Banking Division (SBB)* are discussed in more detail under **Assessment Factor I**.

On a semi-annual basis, management analyzes demographic information for each delineated community and identifies the bank's lending activity in all census tracts. Census tracts with a low volume of loans are targeted for increased marketing and outreach activities.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- o **CRA is an integral part of the Board's planning process and banking philosophy.**
- o **The Board and senior management, at both the bank and holding company level, are actively involved in the bank's CRA program.**

The CRA SAC exercises active policy oversight and conducts quarterly reviews of CRA activities and performance. The committee is chaired by the President and Chief Executive Officer. Committee members also include senior management from the various areas of the bank. A CRA program has been established to help ensure community credit needs are met.

The CRA program establishes goals and objectives and provides a methodology for an annual self assessment. In addition, CRA action plans are developed to ensure corporate goals and directives are met. The Board of Directors receives quarterly progress reports of CRA activities.

Directors, advisory directors, and senior management actively participate in a variety of organizations that assist the bank in improving its delineated communities. Examples of these organizations include the Neighborhood Housing Services of Baltimore, Frederick County Industrial Development Authority, and the United Way.

The Board actively supports CRA training for all personnel and ensures all CRA regulatory requirements are met.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- o FUNB-MD has implemented sound marketing and advertising programs.**
- o These programs inform all segments of the bank's delineated communities of available loan products, including those developed to meet identified credit needs.**

FUNB-MD develops a written marketing plan on an annual basis in conjunction with the First Union corporate plan. The corporate plan outlines objectives, defines markets, and highlights the marketing strategies. First Union conducts corporate wide advertising campaigns which are supplemented by subsidiary bank campaigns. Market penetration reports and audience profiles are used when developing specific marketing strategies.

Marketing and advertising of credit products are primarily accomplished by aggressive officer calling programs and meetings with community groups. These marketing programs are geared toward individuals in low- and moderate-income areas. Bank staff are actively involved in a variety of community organizations which afford FUNB-MD the opportunity to market credit products that were identified as credit needs.

FUNB-MD also advertises specific credit products through local newspapers, direct mail campaigns, magazines, radio, and telemarketing. Many of the bank's advertisements are specifically targeted to LMI individuals and to address identified credit needs. Examples of specific products marketed include: affordable home purchase and home improvement loans, home equity lines of credit, affordable automobile loans, credit cards, and small business loans.

FUNB-MD also markets its credit products when sponsoring or participating in neighborhood fairs, affordable mortgage presentations, community home buyer seminars, credit counseling seminars, and small business seminars. Complete marketing and advertising records are maintained and reviewed for compliance with applicable laws.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm within its community, or the purchase of such loans originated in its community.

- o FUNB-MD has undertaken efforts to address a significant portion of the identified community credit needs through the origination and purchase of loans.**
- o Lending levels reflect a responsiveness to the most pressing community credit needs.**
- o Loans are primarily generated within the delineated communities.**

FUNB-MD offers a traditional array of banking products which help address a majority of the credit needs in the communities. These products reflect housing loans (including government insured loans), commercial and business loans (including Small Business Administration or SBA loans), credit card loans, student loans, automobile loans and loans to local government units and non-profit organizations. The identified need for and the bank’s volume of small farm loans has historically been limited. Loan origination volume for the past two years is summarized below.

Loan Originations		
Loan Type	#	\$(000s)
Residential Real Estate *	3,021	\$ 162,007
Small Business**	246	19,505
Small Farm	5	346
Consumer ***	41,644	301,357
Total	44,916	\$ 483,215

* Residential loans consist of home purchase, mortgage refinance, home improvement and home equity credit lines

** 1996 data for loans to businesses with gross annual revenues of \$1 million or less

*** Consumer loans consist of vehicle loans, revolving credit, other secured and unsecured loans

While the bank’s traditional banking products help meet the credit needs of a significant portion of the communities, additional specialized credit products are offered. These products are targeted at borrowers who would often not qualify for traditional lending programs. The following descriptions highlight features of these products. The number of loans originated in 1996 (January 1, through October 31, 1996) as well as the dollar volume of credit extended are also provided. These totals are product-specific and are included in the total originations previously listed. The first three products listed reflect the ones introduced in June of 1996.

- o **Affordable Home Mortgage Loan** - 169 loans totaling \$19 million.

This product features flexible terms to home buyers. Features include a low 5% down payment which can come from the borrower's funds, sweat equity, or a gift. In addition, higher than traditional loan-to-value and debt-to-income limits are offered. Mortgage insurance is not required.

- o **Neighborhood Development Loan** - 1 loan totaling \$59 thousand.

This loan can be used to purchase a home in designated low- and moderate-income census tracts. The borrower's income must be less than 120% of the HUD median income. Down payments can be as low as 5%, with at least 3% coming from the borrower's own funds. The other 2% can come from gifts, grants, sweat equity, or a loan. Higher debt-to-income ratios are allowed.

- o **Community Partnership Mortgage** - 1 loan totaling \$90 thousand.

The bank requires no down payment, but does require the borrowers to have \$500 of their own funds at closing. These funds may come from a grant, gift, or be paid by the seller. The bank will pay the closing costs in exchange for a 1/4% increase in the interest rate. Participation in home buyer counseling sessions is required. Eligibility is the same as the *Affordable Home Mortgage Loan*.

- o **Fannie 97 Agency Mortgage** - No loans were originated through this new product before year-end 1996.

This community lending product offers a low down payment feature of only 3%. Closing costs can come from gifts, grants, or loans. The program requires applicants to participate in financial counseling. The applicant income level must be below 100% of the HUD median family income.

- o **Coalition Mortgage Loan** - 115 loans totaling \$7.8 million.

This product is targeted to low- and moderate-income first-time home buyers. It features a discounted interest rate, higher than normal debt ratios, reduced fees, no points and other unique terms.

- o **Housing Assistance Rehabilitation (HARP)** - 20 loans totaling \$800 thousand.

The HARP program was designed to provide loans to primarily low- and moderate-income and minority individuals for the acquisition and rehabilitation of existing housing in Baltimore City. This niche product was designed to accommodate tenants who have the opportunity to purchase their home from the landlord under Baltimore's Tenants' Right of First Refusal Ordinance. This

law grants tenants the right to have the first opportunity to purchase the house when the landlord wants to sell the property.

- o **Special Home Improvement** - 17 loans totaling \$317 thousand.

The Special Home Improvement loan provides low dollar, long term housing rehabilitation loans. The minimum loan amount is \$1,500 and repayment periods extend up to 180 months. In addition to the flexible terms, First Union will provide a 2% rebate of interest at the end of each year for borrowers who pay as agreed.

- o **Special Vehicle Loan** - 237 loans totaling \$3 million.

This product provides low dollar automobile financing for both new and used cars. First Union allows financing of vehicles up to seven years old with a minimum loan amount of \$2,500. Extended repayment terms are available to lower the borrower's monthly payments.

- o **Secured MasterCard** - 242 loans totaling \$181 thousand.

The Secured MasterCard provides credit to customers who do not qualify for traditional unsecured credit. The Secured Card allows the customer to re-establish credit and eventually graduate to a traditional, unsecured credit card.

First Union credit products are outlined in bank brochures which are available at branch offices. Brochures discuss credit products, available deposit products and services, and delivery systems.

To better address the credit needs of small businesses, First Union developed a **Small Business Banking Division (SBBD)** which also serves the Maryland markets. The SBBD targets businesses with annual revenues of \$5 million or less. This Division addresses loan requests for \$25,000 to \$350,000 and was established to expedite the loan process for small businesses. In 1996, this Division originated 341 loans totaling \$34.4 million in the FUNB-MD communities. The table entitled **Loan Originations** on a prior page includes the consumer portion of these loans.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- o **FUNB-MD has continued to participate in several government related programs as a way to help meet community credit needs for housing, small business and education.**

The bank participates in several government sponsored, guaranteed, and subsidized programs to help address community credit needs. As noted under **Assessment Factor I**, the bank offers its own small business loan products which are designed to be flexible in helping to meet the credit needs of business owners. Such products have been emphasized through a focused division (SBBD), which limits concern for the historically low volume of loans under the government SBA program. The volume generated through SBBD indicates that FUNB-MD is effectively helping small businesses obtain financing through traditional lending channels.

First Union began offering loans to small businesses on a corporate level through the centralized SBBD during the second quarter of 1995. The division is designed to provide prompt and efficient service by telephone within a 24-hour response time. The program's success indicates an ability to help meet customer needs which also results in the slight decline of SBA guaranteed loans.

FUNB-MD also offers comparable in-house credit products for housing and other consumer loans. These products are detailed in **Assessment Factor I**. The following summary reflects lending volume over the last two years under government related programs.

Government Program Lending		
Loan Type	#	\$(000s)
Federal Housing Authority (FHA) - Mortgage	136	\$13,607
Veterans Administration (VA) - Mortgage	35	4,577
Small Business Administration (SBA)	1	340
Student	Not Available	1,780
Baltimore SELP	12	53
Total		\$20,357

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

- o The geographic distribution of credit extensions, applications and denials demonstrates a reasonable penetration of all segments of the delineated communities, including low- and moderate-income neighborhoods.**
- o In addition, management effectively identifies portions of the delineated communities that are under served and targets them for priority attention and resources.**

The following are analyses of the bank’s residential mortgage, consumer, and small business lending based on records for January through October 1995 and for the year ending October 31, 1996. The records illustrate an adequate distribution of lending among low- and moderate-income areas. Bank management also periodically identifies and targets potentially under served areas for priority attention and directs resources to ensure all parts of its delineated communities are being served. During our review, we also analyzed the bank’s 1995 residential lending distribution as reported under the Home Mortgage Disclosure Act (HMDA). Our analyses included both the geographic location of the bank’s residential loans and the extent to which the bank was lending to low- and moderate-income borrowers.

The following table details the bank’s state-wide distribution of lending in low- and moderate-income areas and illustrates a reasonable penetration in low- and moderate-income areas of the bank’s delineated communities. It also reveals that FUNB-MD is increasing its lending activity in its low- and moderate-income delineated communities as a percentage of overall lending.

State-Wide Geographic Distribution of Lending in Bank Identified Low- and Moderate-Income (LMI) Areas

Loan Type	1995 #	% of total # loans	1995 \$ (000s)	1996 #	% of total # loans	1996 \$ (000s)
Mortgage	80	12%	\$ 3,337	172	18%	\$ 10,005
Consumer	4,146	21%	26,413	5,250	21%	34,617
Small Business	NA	NA	NA	58	27%	4,793
Total	4,226	21%	\$ 29,750	5,480	21%	\$ 49,415

Note: Information is for FUNB-MD and its affiliates for the 10 months ending October 31, 1995 and 12 months ending October 31, 1996.

Distribution of Consumer Real Estate Lending

The following analyses of the distribution of consumer real estate lending was based on 1995 Home Mortgage Disclosure Act data for the bank, its affiliates, and First Fidelity Bancorporation. The analyses use median “family” income as the designation for low- and moderate-income census tracts. Our review includes a comparison of the bank’s distribution of lending with that of all lenders reporting activity in the same communities.

The next table identifies the percentage of owner occupied housing in low- and moderate-income census tracts and the number and dollar amount of loans reported in low- and moderate-income areas of each community. It also compares the bank’s percentage of loans in low- and moderate-income census tracts to the percentage of loans made by all lenders in the market for the same low- and moderate-income census tracts.

The table reveals that the bank is slightly below the level of performance of the other lenders in the market at providing residential mortgage loans within low- and moderate-income areas. However, it is noted that FUNB-MD recently expanded into new communities through its recent merger with *FFB*. Since the merger, FUNB-MD has improved its level of penetration in low- and moderate-income areas. Taking into consideration the total evaluation period, including efforts made since the merger, FUNB-MD is effectively reaching the low- and moderate-income areas of its delineated communities.

1995 Geographic Distribution of Consumer Real Estate Lending in LMI Areas

AGGREGATE RESIDENTIAL LENDING by Income Level of Census Tract (CT) - 1995					
Delineated community:	% of Owner Occupied Housing in LMI CTs	Bank % of Loans in LMI CTs	Market % of Loans in LMI CTs	Bank # of Loans in LMI CTs	Bank \$ of Loans in LMI CTs (000s)
Entire assessment area including Baltimore MSA, Montgomery, Prince George’s and Frederick Counties	20%	10%	16%	131	11,288

The following table reveals the bank is making a reasonable percentage of its consumer real estate loans to low- and moderate-income borrowers. For 1995, the FUNB-MD distribution is below that of other lenders in the delineated community.

**1995 Distribution of Consumer Real Estate Lending
By Borrower Income Level**

AGGREGATE RESIDENTIAL LENDING by Income Level of Borrower - 1995					
Delineated community	% of LMI Families	Bank % of Loans to LMI Borrowers	Market % of Loans to LMI Borrowers	Bank # of Loans	Bank \$ of Loans (000s)
Entire assessment area including Baltimore MSA, Montgomery, Prince George's and Frederick Counties	37%	29%	34%	358	29,336

For 1996, the bank's focus on lending in LMI areas has continued to be demonstrated in its numbers. Compared to 1995, loans in LMI geographies and to LMI borrowers in 1996 show an increased volume to 24% and 54%, respectively.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- o The bank's record of opening and closing offices has not adversely affected the level of services available in low- and moderate-income areas.**

The bank offers service to its customers through 74 branches. Between January 1, 1995 and July 1, 1996, the bank closed eight branches. Four of these branches were located in LMI neighborhoods. Before branches in LMI areas are closed, management normally contacts influential members of the local communities to discuss the potential closing and adverse impact.

The "Branch Closings, Consolidations and Reductions in Service" policy requires management to perform a detailed analysis prior to reducing services or closing any branches in any low- to moderate-incomes areas. This analysis includes the potential impact to residents and alternative solutions to a proposed reduction in service. The policy provides guidelines for :

- branch closures,
- branch consolidations,
- branch relocations,
- reductions in service, and
- branch/ATM divestitures.

A review of the policy shows that First Union has adopted a strategy to reduce the number of branch facilities while improving the overall level of service to its customers. The corporation has pledged to adopt effective written policies and procedures that minimize any adverse effect such actions may have on the communities served.

The First Union policy requires each bank to:

- objectively determine those branches which should be closed, consolidated, or have services reduced;
- consider alternative solutions such as adjusting branch hours and services, including the use of ATMs;
- identify and examine options that minimize potential adverse effects and inconvenience on the communities; and
- communicate anticipated changes to affected customers and communities with sufficient advance notice to minimize adverse effects and inconvenience.

Before taking action, each bank evaluates several factors outlined in the policy. If the bank decides to proceed, management completes the appropriate forms to obtain final approval from the bank President and Board of Directors. The CRA coordinator receives copies of the forms. When an action impacts a LMI community, the policy outlines that one or more of the following steps be taken as appropriate:

- complete an analysis,
- make community contacts, and/or
- review the credit need ascertainment calls.

These steps help to identify other alternatives and to more fully evaluate the issues. Bank management uses input from the Marketing Division, Real Estate Division, and State CRA Coordinator to explore potential remedial actions to improve any identified recommendations.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- o **The bank solicits credit applications from all segments of its delineated communities, including low- and moderate-income areas.**
- o **We did not find any practices intended to discourage credit applications on a prohibited basis.**

FUNB-MD actively solicits applications from all segments of its delineated communities including low- and moderate-income areas. The Board and management have developed a number of programs to ensure compliance with fair lending laws and provide equal access to credit.

Management committees have been formed to oversee the bank's fair lending initiatives. Major departments of the bank are represented on these committees, including a corporate department which was created to manage the overall fair lending activities of the company.

Detailed, formal policies, procedures and training programs have been developed to help ensure the institution does not illegally discourage or pre-screen applicants. First Union has developed and provided a fair lending training program for its employees to ensure they understand the legal requirements as well as bank policies and procedures. The company uses videos, formal training sessions, and on-the-job training to ensure employees become familiar with the fair lending laws and regulations. In addition, the bank conducts diversity training sessions for its employees.

FUNB-MD has established several processes to ensure applicants are treated fairly. These processes include, but are not limited to, a "second review" program and a comparative analysis of loan files. The bank conducts a second review on proposed denials of loans subject to HMDA. This review occurs prior to the issuance of a denial or adverse action notice to the applicant(s). The comparative loan review process, applied on a regular basis, enables the bank to monitor compliance with fair lending laws and to assess the effectiveness of its fair lending programs. The process includes activities to evaluate actions for fair treatment of all applicants.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **We noted no evidence of discrimination or other illegal credit practices.**

We performed an examination for compliance with the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA) in conjunction with this CRA examination. We reviewed the bank's policies and procedures for conformance with these laws and regulations, and conducted tests to check for any areas of noncompliance. Our comparative file analyses for racial and gender discrimination did not detect any instances of illegal disparate treatment or discrimination.

The comparative file review of HMDA applications received during 1995 tested First Union actions to determine if any instances of racial discrimination occurred. We reviewed and compared 368 denied minority transactions to 645 approvals for white applicants sampled from all national banks within First Union plus its mortgage company. The above total includes 315 minority denials and 502 white approvals originated by all of the individual banks. The remaining applications represented 53 minority denials and 143 white approvals received by First Union Mortgage Corporation. In accordance with OCC procedures, minorities selected for comparison purposes represented American Indian, African American, and Hispanic applicants.

The other aspect of our testing included a comparative file review for gender discrimination. For automobile loans through one of the corporation’s significant lending units, we reviewed and compared 124 denied female applicants to 226 approved male applicants.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- o FUNB-MD has maintained, through ongoing efforts, a high level of participation in development and redevelopment programs within its local communities, often in a leadership role.**

Community development related lending activity totals \$26 million. This volume includes lending related to LMI housing, small businesses, and government guaranteed programs. Projects which are particularly noteworthy are summarized in the following comments.

- o** The bank has demonstrated a leadership position in providing affordable multi-family housing in its various communities. FUNB-MD has accomplished this by being involved in all facets of the transaction which includes providing construction loans, permanent loans, letters of credit, as well as purchasing the investment tax credits for the related project. Through the purchase of tax credits, the bank has an equity interest in the project. The following table lists many of the projects which the bank has demonstrated its leadership during the assessment period:

Project	Number of Units	Type of Credit Facility	\$(000's)
Fairbrook Senior Housing	122	Construction & Equity Investment	2,900 4,200
Maryland Housing Equity Fund	52	Equity Investment	1,000
Fountain Place	20	Equity Investment	819
Montgomery Homes	116	Equity Investment	3,700
Salisbury Senior	58	Equity Investment	2,200
Total	368		\$14,819

- o Maryland Center for Community Development (MCCD) formerly known as Maryland Alliance Responsibility Investment (MARI) - This organization is a coalition**

of 24 community, advocacy, and civil rights organizations that promote private and public investment in the development of low- and moderate-income communities in Baltimore. They also promote affordable credit and financial services for low- and moderate-income individuals as well as small businesses. The organization encourages individuals to become involved in the government and private sector policies concerning community reinvestment and economic development.

- o FUNB-MD led the effort to help this organization promote affordable housing by creating an innovative mortgage product known as the Coalition Mortgage Product (details are provided in **Assessment Factor I**). In addition, FUNB-MD donated \$300,000 to MCCD member groups to provide home ownership counseling for low- and moderate-income individuals.
- o **The Maryland Housing Equity Fund** - FUNB-MD has committed \$10 million to fund affordable housing. Four projects will be developed altogether, with the largest project - Fairbrook Senior Apartments - containing 123 units. The affordable housing units are located in Harford and Montgomery counties.
- o A \$750,000 line of credit to **Holly Poultry, Inc.** - Holly Poultry is located in an economically depressed portion of Baltimore and provides jobs for numerous low- and moderate-income individuals.
- o **The Granite Run Funding Corporation** - This credit will result in the rehabilitation of multi-family affordable housing and a commercial real estate section in a low- to moderate-income neighborhood. A total of \$16 million has been committed to the corporation.
- o **Robert Pierre Johnson Housing Development Corporation** - FUNB-MD led the effort to help this organization find gap funding for the acquisition and rehabilitation of a 54 unit complex in Hyattsville, MD. FUNB-MD successfully secured \$175,000 in Federal Home Loan Bank affordable housing subsidies. Other funders include the State of Maryland, Prince George County, Potomac Electric Power Company, and utilization of low-income housing tax credits.
- o **Chesapeake Biological Laboratories** - This is a major expansion in the Southwest Baltimore Enterprise Zone. FUNB-DC provided the credit enhancement for a tax exempt \$7 million IRB to finance renovations and a permanent mortgage of a manufacturing plant in Baltimore City.
- o **Prince George County CDC** - A member of FUNB-MD management participated in a task force that focused on how to approach revitalization in an area that lacked community

groups. Under FUNB-DC leadership, the task force created the Price George County CDC which is currently identifying potential projects in four targeted revitalization areas.

Assessment Factor K - The institution's ability to meet various community needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- o FUNB-MD has played a leadership role in developing specific projects promoting economic revitalization and growth, consistent with its size, financial capacity, location, and current local economic conditions.**

FUNB-MD has no financial or legal impediments which would interfere with its ability to meet the credit needs of its community. However, the bank has experienced significant growth primarily due to the acquisition of First Fidelity in January 1996. First Fidelity, and its predecessors, functioned as a savings bank with an emphasis on deposit gathering and residential real estate lending.

Assets have increased significantly from year-end 1994 and so has the bank's presence within the market. For example, the number of low- and moderate-income census tracts in the delineated community increased from 111 to 304 from 1995 to 1996. FUNB-MD management has spent significant resources educating employees on commercial banking. This has resulted in a significant increase in consumer and commercial lending activity within the community.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- o FUNB-MD has engaged in several other meaningful activities, not included in other performance categories, which enhance the bank's efforts to meet community credit needs and the non-credit banking needs of low- and moderate-income individuals.**

Educational Programs

Choices & Decisions: Taking Charge of Your Life is an educational program designed for high school students developed by Visa U. S. A. in cooperation with the United States Office of Consumer Affairs and the National Consumers League. The program teaches personal financial management skills to students throughout the state. FUNB-MD administered this program at four schools in Maryland.

School Savings Banks are offered by FUNB-MD in partnership with elementary and middle schools throughout the state. The School Savings Banks are designed to assist students in

learning the importance of saving money. The students operate the bank with the assistance of a bank employee and they learn to handle money carefully and responsibly. They also learn customer service skills as they operate the banks. First Union pays the regular savings interest rate for these deposits and sends each customer a quarterly statement. FUNB-MD currently has established two School Savings Banks in the Baltimore area.

Examples of other projects which enhance the community include:

- o FUNB-MD purchased \$235 thousand in Maryland Housing Bonds.
- o The bank has made several charitable contributions to various community organizations within the state totaling \$226,240.
- o Employee membership and participation continues in a variety of community, civic, economic development and government organizations. In these roles, bank officials also serve as board members and regularly provide technical assistance.

ADDITIONAL INFORMATION

Corporate and Local CRA Programs

FUNB-MD has access to the Corporate CRA staff based in Charlotte, North Carolina, which coordinates CRA activities throughout First Union. The Corporate CRA staff provides various types of support which include analytical tools and communications, such as publication of a CRA newsletter. Since several aspects of the bank's CRA activities have been influenced by the parent company, the remainder of this section summarizes basic components of the corporate CRA program.

CRA Policy

The First Union Community Reinvestment Policy has been updated to reflect the recent changes in CRA and has been distributed to all of the individual banks. The policy is designed to provide overall guidance to the Corporation, its Directors, management and all employees. It helps to continually renew the First Union dedication and commitment to serve credit needs of all communities. Administration of the policy remains a corporate-wide responsibility under the overall direction of the Board of Directors for First Union and each state.

CRA Organization Structure

The Board of Directors has identified committees and individuals to focus on CRA activities and to receive periodic reports to help keep the Directors informed. The Board receives administrative support for CRA through committees, local advisory boards, officer positions and teams that work closely with CRA related activities.

The corporate and bank Audit Committees monitor compliance for their respective Boards and report to the Directors at least quarterly. The Audit Committees receive quarterly reports from the Director of Community Reinvestment at the corporate level or from the appropriate Regional CRA Coordinator at the bank level.

The Corporate CRA Steering Committee has overall responsibility to implement the policy throughout First Union. This committee monitors and supervises compliance with the policy on behalf of the Board of Directors. The Vice Chairman of the corporation chairs the committee which includes executive officers from major departments and bank presidents for each state.

Regional CRA Self-Assessment Committees have the overall responsibility to implement the policy in the states and to assess compliance with policy relative to performance. For each region, this committee reviews and analyzes the ascertainment efforts as well as the results to address community credit needs. The state President chairs this committee.

The Corporate CRA Staff has the responsibility to interface with the CRA committees to implement the policy throughout the corporation. Included as part of this staff, a senior level

officer serves as the Corporate Director of Community Reinvestment. The ongoing activities relative to CRA are undertaken by other officers who serve as Assistant Director of Community Reinvestment, CRA Lending Manager, Fair Lending/Home Mortgage Disclosure Act Manager, Communications Manager, Regional CRA Coordinators and Community CRA Coordinators.

Regional CRA Coordinators have the responsibility to interface with the Corporate CRA Staff and the appropriate state CRA committee to implement the policy in each state. The state coordinators receive support from the various local area coordinators.

Reporting

The policy requires no less than quarterly reports to the Board of Directors, or committees thereof. First Union also uses quarterly data for most reports as it implements the policy and monitors community reinvestment performance, focusing on results.

Board Reviews

In addition to periodic reports, the Board reviews other CRA related material. Annually, the Board reviews and adopts the bank's CRA statement (no longer required with the latest regulatory revision) and the local community delineations. The Board also approves the CRA plan which contains policies and procedures for implementing CRA.

CRA Plans

The bank updates the formal CRA Plan that directs its CRA activities and includes changes to reflect the revised regulation. The plan serves to affirm the company's commitment to help meet the needs of low- and moderate-income individuals in communities serviced by the First Union banking operations. The plan also highlights the overall process to implement the Community Reinvestment Policy.

Self-Supervision

First Union and its subsidiary banks have established a system to ensure compliance with the basic technical requirements of the Act. The corporation relies upon the Internal Audit Division and the Regulatory Compliance Division to monitor performance and test compliance under the Act. In addition, the Branch Operations area has the responsibility to monitor compliance with technical requirements of the Act.

Regional Self-Assessments

First Union has implemented a process to evaluate its own performance under the Act. Regional self-assessments of performance have been made on an annual basis. The Regional CRA Self-Assessment Committee receives reports on the evaluation results. Each bank uses other, more frequent reviews in the interim to monitor the progress of each community.

CRA Training

Board of Directors and senior management have actively supported CRA training for bank and corporate personnel. The CRA related training conducted in 1996 adequately covered the

technical and regulatory requirements of the Act, CRA reform, and a reemphasis on roles and responsibilities. Throughout First Union, training was provided to the Board of Directors, senior management, area presidents, CRA coordinators, Self-Assessment Committee members, branch managers, lending officers, tellers, and customer service representatives. Computer based training was also provided to new and existing employees. The CRA Manual used in the training sessions is in process of being updated to reflect regulatory revisions; it serves as a reference tool at the branch levels. First Union also included training sessions directed to promote fair lending throughout the corporation.

CRA Public File

We encourage the readers of this Performance Evaluation to contact the bank to review information contained in the public file.