

**PUBLIC DISCLOSURE**

November 18, 1996

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Sterling Bank and Trust Company

05111310

111 Water Street

Baltimore, Maryland

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

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

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 Sterling Bank and Trust Company prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of November 18, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

While the majority of loans sampled was extended to residents outside the assessment area, the bank's overall record of lending, reflected by a high loan-to-deposit ratio, resulted in an overall satisfactory level of helping to meet the credit needs of its community. Since the previous examination, the bank has extended very few new loans. Therefore, an analysis of the geographic and borrower distribution of lending was not significantly meaningful. Nonetheless, the institution's lending to small businesses, as well as the geographic distribution of its lending within the assessment area, is considered reasonable considering the bank's lending philosophy and market demographics.

The following table indicates the performance level of Sterling Bank and Trust Company with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Sterling Bank and Trust Company</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area			X
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

**DESCRIPTION OF INSTITUTION**

Sterling Bank and Trust Company operates three offices in central Maryland. These offices are located in downtown Baltimore, Pikesville, and Annapolis. Since the previous examination, the bank has undergone changes in management and staff, as well as its lending philosophy. The institution is repositioning itself as a small business lender. During this transition, the bank focused its efforts on managing the existing loan portfolio. As a result, total assets and total loans outstanding have declined by approximately \$15 million (19%) and \$6 million (11%), respectively. The bank has maintained a high loan-to-deposit ratio over the preceding five quarters ranging from 85% to 94%. These high ratios also prevented substantial loan growth during this period. As of September 30, 1996, the bank had assets of \$65 million, of which 76% were loans.

Various deposit and loan products are available through the institution, including loans for real estate development, small business, residential mortgage, and consumer purposes. The loan portfolio as of September 30, 1996, was comprised of the following: 82% real estate secured (consumer and business), 17% commercial, and 2% consumer. Based on lending volume since the previous examination, small business and residential mortgage loans were identified as principal credit products offered by the bank. The institution's previous CRA rating was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The institution has defined its local market as three assessment areas. These areas include the following census tracts:

Downtown Baltimore Branch <u>Baltimore City</u>	Pikesville Branch <u>Baltimore County</u>	Annapolis Branch <u>Anne Arundel County</u>
202 00	4022 00	7011 00
202 00	4024 01	7012 00
401 00	4024 02	7024 00
402 00	4024 04	7025 00
501 00	4025 00	7026 00
1002 00	4026 01	7027 00
1004 00	4026 02	7021 01
1101 00	4027 01	7022 00
1102 00	4027 02	7024 00
1701 00	4028 01	7025 00
2201 01	4028 02	7026 00
	4028 03	7027 00
	4027 01	7200 00
	4027 02	7200 01
	4004 00	7211 02

According to the 1990 census, the population of the assessment areas is 166,333. The areas consist of 41 census tracts. Of these tracts six are low-income, five are moderate-income, ten are middle-income, and 20 are upper-income. The assessment areas incorporate the central business district of downtown Baltimore, the business triangle of Pikesville, Owings Mills, and Towson, and the central business district of Annapolis. The following table provides demographics by income level of families and the percentage of the population living in census tracts of varying income levels within the institution's assessment areas.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Percentage of Area Families by Income Level</b>	16%	12%	18%	54%	100%
<b>Percentage of Population Residing in Census Tracts by Income level of Tract</b>	5%	5%	28%	62%	100%

The economy of the Baltimore Metropolitan Statistical Area (MSA) provides diverse employment opportunities in the Federal and State Governments, local tourism industry, light and heavy manufacturing, seafood processing, and various retail businesses. The unemployment rates for the area remain mixed with Anne Arundel County's rate of 4.2%, Baltimore County's rate of 5.5%, and Baltimore City's rate of 8.3%. The Maryland State average unemployment rate is 4.9%. A community contact was performed with a representative from a regional community assistance organization to assist in evaluating the bank's CRA performance. This individual indicated that affordable low-income housing in central Maryland remains a need and a challenge for local financial institutions to design accommodating loan programs.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**LOAN-TO-DEPOSIT RATIO**

The average loan-to-deposit ratio for the previous five quarters is 89%. The average loan-to-deposit ratio for institutions of similar asset size headquartered in the Baltimore-Washington MSAs was 79%. The bank's loan-to-deposit ratio is considered more than reasonable given the institution's financial capacity, size, and local current economic conditions.

## LENDING IN ASSESSMENT AREA

Small business loans extended since the previous examination and residential mortgage loans extended since January 1, 1995, were reviewed to determine the bank's level of lending inside its assessment area. As illustrated by the following chart, a majority of these loans are outside of the bank's assessment area. Historically, 60% of the loans extended by the bank (as noted in the previous two CRA evaluations) were to residents of the local community. The decline of lending to residents of the local communities was caused, in part, by the adoption of assessment areas that reflect the institution's new market focus (small business lending).

### Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	15	29	44
Percentage of Total Loans	34%	66%	100%
Total Amount of Loans (000's)	\$2,351	\$7,013	\$9,364
Percentage of Total Amount	25%	75%	100%

## LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The following charts illustrate the distribution of the residential mortgage and small business loans extended within the assessment area to businesses of different sizes and by income level of the borrower.

### Distribution of Loans by Size of Business

	Revenues $\leq$ \$ 1 Million	Revenues $>$ \$ 1 Million	Total
Total Number of Loans	6	1	7
Percentage of Total Loans	86%	14%	100%
Total Amount of Loans (000's)	\$740	\$140	\$880
Percentage of Total Amount	84%	16%	100%

The loans extended to businesses with gross revenues of \$1 million or less demonstrate the bank's willingness to meet small business credit needs.



**Distribution of Loans by Income Level of Borrower**

Residential Mortgage Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	0	0	1	7	8
<b>Percentage of Total Loans</b>	0%	0%	13%	87%	100%
<b>Total Amount of Loans (000's)</b>	0	0%	\$90	\$1,381	\$1,471
<b>Percentage of Total Amount</b>	0%	0%	6%	94%	100%

While no loans were extended to low- and moderate-income applicants, the high cost of housing in the area has made it difficult for many lower-income individuals to purchase or own homes. In particular, 82% of the non-commercial single family dwellings are valued in excess of \$101,000. Based on 1995 income figures, low- and moderate-income families in the Baltimore MSA would not earn more than \$24,700 and \$39,520 per year, respectively.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

An analysis of lending throughout the community by census tract was performed. The bank's assessment areas consist primarily of middle- and upper-income areas. The following charts show the distribution of the small business and residential mortgage loans extended in the assessment areas according to income level of census tract.

**Distribution of Loans in Assessment Area by Income Level of Census Tract**

Small Business Lending

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	0	3	3	1	7
<b>Percentage of Total Loans</b>	0%	43%	43%	14%	100%
<b>Total Amount of Loans (000's)</b>	\$0	\$410	\$330	\$140	\$880
<b>Percentage of Total Amount</b>	0%	47%	37%	16%	100%



Residential Mortgage Loans

	<b>Low- Income</b>	<b>Moderate- Income</b>	<b>Middle- Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Total Number of Loans</b>	0	0	3	5	8
<b>Percentage of Total Loans</b>	0%	0%	38%	62%	100%
<b>Total Amount of Loans (000's)</b>	\$0	\$0	\$308	\$1,163	\$1,471
<b>Percentage of Total Amount</b>	0%	0%	21%	79%	100%

In the bank's three assessment areas, the majority of population (90%) resides in middle- and upper-income census tracts. The three small business loans extended to businesses in moderate-income tracts are considered beneficial for those areas. While no residential mortgage loans were extended to residents of a low- or moderate-income census tract, the small quantity of owner-occupied properties limits the opportunities for creditors to extend residential mortgage loans. Only 17% of all housing in the 11 low- and moderate-income census tracts in the assessment areas are owner-occupied.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

The bank is in compliance with the substantive provisions of the fair housing and fair lending laws and regulations. Violations involving the technical aspects of the Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.