



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 28, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The National Bank Of Cambridge
Charter Number 2498**

**304 High Street
Cambridge, MD 21613**

**Comptroller of the Currency
Maryland/National Capital Area
250 E Street, SW
Washington, DC 20219-0001**

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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INSTITUTION'S CRA RATING

This institution is rated “SATISFACTORY”.

The primary factors supporting the bank’s overall rating include:

- o A reasonable loan-to-deposit ratio of 63%;
- o A substantial majority of loans, representing 81% of the number and 89% of the dollar amount, originated within the assessment area;
- o A good record of lending to small businesses and farms; and
- o A reasonable geographic distribution of loans throughout the assessment area.

DESCRIPTION OF INSTITUTION

Established in 1880, the National Bank of Cambridge (NBC) is headquartered in Cambridge, Maryland. The bank is the largest, locally headquartered bank in Dorchester County. NBC offers a full range of loan and deposit services. As of June 30, 2002, total assets were \$191 million, gross loans were \$90 million, and total deposits were \$158 million. As a percentage of gross loans, 57% were commercial and commercial real estate loans to businesses and farms; 30% were loans secured by 1-4 family residential property; 11% were consumer loans; and 2% were other loans. NBC is well positioned to help meet the credit needs of its assessment area.

NBC serves the community from its headquarters in downtown Cambridge, Maryland, and from two branch locations: Woods Street in Cambridge and Pine Street in Hurlock, Maryland. All of the bank's branches offer convenient hours to accommodate customers including extended hours on Friday evenings and 24-hour automatic teller machines (ATMs). NBC also has a 24-hour ATM in the Dorchester General Hospital in Cambridge. There is strong competition from other community and regional banks, thrifts, and non-financial institutions. The bank has no impediments, legal or otherwise, that would hinder its efforts in helping meet the credit needs of the assessment area.

DESCRIPTION OF ASSESSMENT AREA

NBC has defined its assessment area as all of Dorchester County, Maryland. This assessment area is located on Maryland's Eastern Shore in a non-metropolitan statistical area (MSA). It complies with the legal requirements of CRA and does not arbitrarily exclude low- and moderate- income areas. The county's population of approximately 30,000 has remained fairly stable over the last forty years.

A large portion of the area economy is seasonal in nature as it depends heavily on summer tourism. As such, the majority of the businesses in the area are service and retail oriented with the remaining workforce employed in manufacturing. Major employers include Allen Family Foods, Bloch & Guggenheimer, Cambridge International, Inc., Coldwater Seafood, Dorchester General Hospital, Egide USA, Inc., Hi-Tech Plastics, Inc., and Mail-Well Graphics. Management and the Board continue to identify the primary credit needs within the bank's assessment area as small business and residential real estate loans.

The following table reflects the breakdown of census tract characteristics within the MSA based on 1990 Census Bureau information. The 2002 Housing and Urban Development (HUD) updated median family income level is \$54,800.

ASSESSMENT AREA DEMOGRAPHICS

Designation	# Census Tracts	% of Total Tracts
Low Income	0	0%
Moderate Income	2	22%
Middle Income	7	78%
Upper Income	0	0%
Totals	9	100%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

NBC's loan-to-deposit ratio is reasonable and commensurate with its size, financial condition, and the credit needs of the assessment area. It averaged 63% over the last 18 quarters from March 31, 1998 (the prior CRA examination) through June 30, 2002. This compares less favorably to the 76% average loan-to-deposit ratio for similarly situated banks in the country during the same time period. However, the bank's loan to deposit ratio has been adversely impacted by a continuing building moratorium in Cambridge and a lack of population growth in the bank's assessment area.

LENDING IN ASSESSMENT AREA

A substantial majority of the bank's lending activity is within its assessment area. We tested and relied on total loan origination data from January 2001 through September 30, 2002 provided by bank reports. Based on our analysis, 89% of the total number and 81% of the total dollar volume of loans, respectively, were originated in the assessment area during the evaluation period.

LENDING TO BUSINESSES OF DIFFERENT SIZES & BORROWERS OF DIFFERENT INCOMES

The bank's record of lending to businesses and farms of different sizes is good. We tested and relied on business and farm loan data provided by bank reports. As the following table illustrates, 87% of the number and 52% of the dollar volume of loans originated were to small businesses and small farms with annual revenues of \$1 million dollars or less.

LENDING TO BUSINESSES OF DIFFERENT SIZES

Business Revenue Size	# of Loans	% of Total	\$(000s)	% of Total
<= \$1 Million	385	86.91	23,686	52.25
>= \$1 Million	58	13.09	21,649	47.75
Totals	443	100.00	45,335	100.00

The bank's record of lending to borrowers of different incomes, particularly low- and moderate-income families, is reasonable. We tested and relied on mortgage and home equity loan origination data provided by bank reports. As the following table illustrates, 51% of the number and 31% of the dollar volume of loans originated were extended to low- and moderate- income borrowers. These percentages reasonably compare to the 45% of low- and moderate- income families residing in the bank's assessment area based on 1990 Census Bureau information.

LENDING TO BORROWERS OF DIFFERENT INCOMES

Income Designation	# of Loans	% of Total	\$(000s)	% of Total	Family Income Characteristics
Low	42	30.01	1,108	17.17	25%
Moderate	29	20.71	909	14.09	20%
Middle	36	25.71	1,896	29.39	24%
Upper	33	23.57	2,539	39.35	31%
Totals	140	100.00	6,452	100.00	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area. We tested and relied on loan origination data provided by management reports. Our analysis reflects 27% of the number and 29% of the dollar volume of loans originated are in moderate-income census tracts. This compares favorably to the 22% moderate-income census tracts located in the assessment area.

RESPONSE TO COMPLAINTS

The bank received no complaints applicable to its performance under the regulation since its prior CRA examination in 1998.

FAIR LENDING REVIEW

In accordance with the OCC risk-based approach, a fair lending review was not performed during this examination. A comprehensive fair lending review was performed during the prior CRA review. We did not note any illegal discriminatory lending patterns or practices at that time.