



Comptroller of the Currency
Administrator of National Banks

Small Bank

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

July 12, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Harford National Bank

Charter Number 15314

**8 West Bel Air Avenue
Aberdeen, Maryland 21001**

**Office of the Comptroller of the Currency
Maryland/National Capital Area Field Office
1025 Connecticut Avenue, N.W., Suite 708
Washington, D.C. 20036**

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

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 the 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 CRA performance of **Harford National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of July 12, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: SATISFACTORY

Harford National Bank is meeting the credit needs of its assessment area.

The satisfactory rating is based on the following factors:

- The bank’s average loan-to-deposit ratio during the evaluation period was reasonable.
- Lending to low- and moderate-income families and small businesses reflects reasonable penetration of the assessment area’s demographics.
- The geographic distribution of loans within the bank’s assessment area was excellent.
- A substantial majority of loans originated during the evaluation period were in the bank’s assessment area.
- The bank reported receiving no consumer complaints regarding CRA during the evaluation period.
- A fair lending examination identified no violations of the substantive provisions of the antidiscrimination laws and regulations.

DESCRIPTION OF THE BANK

Harford National Bank (“Harford”) is an independent, locally owned bank with its main office located in Aberdeen, Maryland. On March 31, 1999, total assets were \$124 million. The bank has no subsidiaries or affiliates.

Harford has six full-service branch offices, all located in Harford County, Maryland. Each branch has a drive-in facility and an ATM located on-site. Branch offices are located primarily in the southern half of Harford County. Branches are accessible to low- and moderate-income individuals within the assessment area. Two branch offices are located in moderate-income census tracts. Since the last Community Reinvestment Act examination, Harford opened a new branch in an upper-income census tract in the town of Bel Air. The bank offers telephone banking account access 24 hours a day. Harford also has an informational Internet website located at www.hnbl.com.

On March 31, 1999, net loans were 62% of total assets. As the following table indicates, primary loan product lines are commercial real estate, home purchase, commercial and industrial, and consumer loans.

Loan Product Lines	Percentage of Total Loans (\$)
Commercial Real Estate	39%
Home Purchase	26%
Commercial and Industrial	15%
Consumer loans	14%
Other	6%
Total	100%

The bank’s primary business focus is small commercial real estate lending, small business lending, residential lending, and consumer lending.

There are no legal or financial circumstances that would impede the bank’s ability to help meet the credit needs of its assessment area.

This Office conducted the last CRA examination as of June 3, 1996. The evaluation period ended December 31, 1995. The bank’s performance was rated Outstanding. The evaluation period for this Public Evaluation is January 1, 1996 through May 31, 1999.

DESCRIPTION OF THE BANK’S ASSESSMENT AREA

Harford National Bank’s assessment area is Harford County, Maryland. The bank’s main office, branches, and ATMs are all located within the assessment area.

As noted in the following table, Harford County has 39 census tracts:

ASSESSMENT AREA DEMOGRAPHICS			
Designation	# Census Tracts	% of Total Tracts	% of Families Residing in the Census Tracts
Low Income	0	0%	N/A
Moderate Income	9	23%	18%
Middle Income	17	44%	44%
Upper Income	13	33%	38%
Totals	39	100%	100%

There are no low-income census tracts in the assessment area. Aberdeen Proving Ground and the Edgewood Arsenal Area of Aberdeen Proving Ground, both U. S. Army installations, represent the two largest moderate-income census tracts. The bank’s defined assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The assessment area is part of the Baltimore, Maryland Metropolitan Statistical Area (“MSA”). From the 1990 Census, the median family income was \$42,206. The 1998 updated MSA median family income was \$55,600. Within the assessment area, there are 6,678 low-income families (13%), 8,844 moderate-income families (18%), 13,197 middle-income families (26%), and 21,621 upper-income families (43%).

From the 1990 Census for Harford County: population totaled 182,132; households totaled 63,094, of which 3,508 were below the poverty level; median housing value was \$111,815; housing units totaled 66,446, of which 70% were owner-occupied, 25% were rental-occupied, and 5% were vacant; and the average housing age was 27 years.

Economic conditions in Harford County are good. Major employers are Aberdeen Proving Ground, Upper Chesapeake Health System, Frito-Lay, Clorox, RiteAid, Saks Fifth Avenue, and Alcore, Inc. The county’s inclusion in the Baltimore MSA and close proximity to the Philadelphia, Pennsylvania, Wilmington-Newark, Delaware, and Washington, D.C. MSAs provides additional employment opportunities. The unemployment rate for 1998 in Harford County was 1.8%.

Banking competition in Harford County is strong and consists of 11 commercial and five federal savings banks, and three credit unions. Two are community commercial banks, owned by larger out of area institutions, with local headquarters. Three are large, nationally known commercial banks with branches in the area. Commercial bank competition also consists of branches of six regional and large community banks headquartered in the Baltimore MSA. One regional competitor has ten branches within the assessment area. A large credit union is based on Aberdeen Proving Ground. Harford National Bank is the only independently owned and operated commercial bank headquartered within the assessment area.

Community contacts consisted of a non-profit that develops and promotes affordable housing programs for low- and moderate-income families within Harford County, and the Harford County

Office of Economic Development. Identified credit needs include home purchase loans for affordable housing for low-income families, small business loans within the assessment area's moderate-income census tracts to stimulate small business growth and create jobs, and loans for the redevelopment of commercial areas in the assessment area's moderate-income census tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Analysis

The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and the credit needs of the assessment area.

Since the last CRA examination, the bank's quarterly loan-to-deposit ratio averaged 72.7%, which is within the range of the average loan-to-deposit ratios for local and regional commercial bank competitors. Average quarterly loan-to-deposit ratios for local competitors ranged between 63.4% to 92.6%, and regional competitors ranged between 80.5% to 97.7%. The quarterly ratio averages for national commercial bank competitors ranged between 86.9% and 107.5%.

Lending in Assessment Area

A substantial majority of Harford's loans originated during the evaluation period are in the assessment area, as indicated in the following table:

LOAN ORIGINATIONS BY PRODUCT TYPE IN THE ASSESSMENT AREA DURING THE EVALUATION PERIOD				
Loan Type	# of Loans	% of Total	\$ (000s)	% of Total
Commercial Real Estate (*)	20	95%	8,325	98%
Home Purchase	88	56%	6,087	72%
Commercial and Industrial (*)	20	95%	1,039	96%
Consumer Installment (*)	20	65%	230	60%
Total	148	68%	15,681	87%

(*) Based on a sample of these types of loans originated from January 1996 through May 1999.

The preceding table data is derived from two sources. First, home purchase loan information is derived from the bank's Home Mortgage Act Disclosure ("HMDA") Loan Application Register. A home purchase loan is any loan secured by, and made for the purpose of, purchasing a dwelling. Data for commercial real estate, commercial and industrial, and consumer installment loans is based on samples

of these loans originated during the evaluation period. A commercial real estate loan (sample size: 21 loans) is a loan to finance non-farm, non-residential real estate. Commercial and industrial loans (sample size: 21 loans) include loans to businesses for working capital, business acquisition, and fixed asset purchases. Consumer installment loans (sample size: 31 loans) included loans to individuals for vehicle purchases, household expenses, and personal expenses.

A substantial majority of the number and dollar amount of the bank's commercial real estate, and commercial and industrial loans are made within the assessment area. This overall conclusion is further supported by common sizing the data for each of the four listed loan products. That is, each product is weighted equally for the number of originations, or 25%, and the dollars originated for home purchase are adjusted accordingly to the average loan size. This analysis shows that 94% of the dollars, and 78% of the number, were loans originated in the assessment area. Within the assessment area, loans to redevelop commercial real estate, and commercial and industrial loans to small businesses are identified credit needs. The bank has a satisfactory record of originating home purchase loans in Harford County.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different incomes, including low- and moderate-income families, and businesses with annual revenues equal to \$1 million or less, is reasonable.

The following tables show a reasonable penetration of *home purchase loans* to families with low- and moderate-income levels within the assessment area during the evaluation period in the context of community contact-identified housing financing needs.

BORROWER DISTRIBUTION OF HOME PURCHASE LOANS WITHIN THE ASSESSMENT AREA					
Income Level	1996		1997		% of Families within each Income Level
	# Loans/%	\$(000s)/%	# Loans/%	\$(000s)/%	
Low	2/9%	15/1%	2/10%	118/14%	13%
Moderate	7/32%	254/26%	9/45%	233/27%	18%
Middle	8/36%	404/41%	6/30%	378/44%	26%
Upper	5/23%	320/32%	3/5%	129/15%	43%
Total	22/100%	993/100%	20/100%	858/100%	100%

BORROWER DISTRIBUTION OF HOME PURCHASE LOANS WITHIN THE ASSESSMENT AREA					
Income Level	1998		Through May 1999		% of Families within each Income Level
	# Loans/%	\$(000s)/%	#Loans/%	\$(000s)/%	
Low	7/32%	216/17%	1/4%	51/2%	13%
Moderate	6/27%	228/17%	6/25%	416/14%	18%
Middle	6/27%	499/38%	8/33%	756/26%	26%
Upper	3/14%	372/28%	9/38%	1,698/58%	43%
Total	22/100%	1,315/100%	24/100%	2,921/100%	100%

During the evaluation period, the bank originated 14% of the total number and 7% of the total dollar amount of home purchase loans to low-income families within the assessment area. Similarly, the bank originated 32% of the total number and 19% of the total dollar amount of home purchase loans to moderate-income families within the assessment area.

The bank provides floor plan financing for a number of mobile home dealers. In turn, the bank provides mobile home purchase loans to customers of the mobile home dealers. A significant number of the home purchase loans made during the evaluation period were mobile home loans outside the assessment area, spread across a neighboring county.

The bank's record of consumer installment lending shows excellent penetration to families with low- and moderate-incomes within the assessment area.

BORROWER DISTRIBUTION OF CONSUMER LOANS WITHIN THE ASSESSMENT AREA			
Income Level	# Loans	% of Total	% of Families within each Income Level
Low	8	40%	13%
Moderate	6	30%	18%
Middle	2	10%	26%
Upper	2	10%	43%
Total	20	10%	43%

The bank's record of originating commercial real estate loans to businesses with revenues less than or equal to \$1 million during the evaluation period is reasonable. Based upon loans originated during the evaluation period, commercial real estate loans are the bank's largest primary loan product line.

DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS BY REVENUE SIZE WITHIN THE ASSESSMENT AREA					
Business Revenue Size	# Loans	% of Total	\$(000s)	% of Total	% of Non-Farm Businesses by Revenue Size Within the Assessment Area
< = \$1 Million	17	85%	6,709	81%	92%
> \$1 Million	3	15%	1,616	19%	8%
Totals	20	100%	8,325	100%	100%

The number of commercial and industrial loans originated by the bank to businesses with annual revenues less than or equal to \$1 million is reasonable. The low dollar percentage reflects a small average loan amount.

DISTRIBUTION OF COMMERCIAL AND INDUSTRIAL LOANS BY REVENUE SIZE WITHIN THE ASSESSMENT AREA					
Business Revenue Size	# Loans	% of Total	\$(000s)	% of Total	% of Non-Farm Businesses by Revenue Size Within the Assessment Area
< = \$1 Million	13	65%	399	38%	92%
> \$1 Million	7	35%	640	62%	8%
Total	20	100%	1,039	100%	100%

Geographic Distribution of Loans

The geographic distribution of loans throughout the assessment area is excellent. There is one census tract with no loan activity. This is a moderate-income tract that encompasses the Edgewood Arsenal Area of Aberdeen Proving Ground. The moderate-income census tract that encompasses Aberdeen Proving Ground had limited lending activity. Aberdeen Federal Credit Union and Matcom Federal Credit Union serve Aberdeen Proving Ground.

The following table shows excellent geographic distribution of commercial real estate loans to moderate-income census tracts. Redevelopment of commercial areas within moderate-income census tracts is an identified credit need within the assessment area.

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS WITHIN THE ASSESSMENT AREA					
Designation	# Loans	% of Total	\$ (000s)	% of Total	% of Businesses in each Census Tract
Low Income	N/A	N/A	N/A	N/A	N/A
Moderate Income	6	30%	2,200	26%	16%
Middle/Upper Income	14	70%	6,125	74%	84%
Total	20	100%	8,325	100%	100%

There is excellent geographic distribution of home purchase loans originated within the assessment area during the evaluation period. The bank originated 24% of the total number and 13% of the total dollar amount of home purchase loans in the assessment area's moderate-income census tracts. Only 11% of all owner-occupied housing in the assessment area is located in moderate-income census tracts.

GEOGRAPHIC DISTRIBUTION OF HOME PURCHASE LOANS WITHIN THE ASSESSMENT AREA					
Census Tract Income	1996		1997		% of Total Owner- Occupied Housing By Census Tract
	# Loans/%	\$(000s)/%	# Loans/%	\$(000s)/%	
Low	N/A	N/A	N/A	N/A	N/A
Moderate	4/18%	79/8%	9/45%	373/43%	11%
Middle	15/68%	727/73%	6/30%	187/22%	48%
Upper	3/14%	187/19%	5/25%	298/35%	41%
Total	22/100%	993/100%	20/100%	858/100%	100%

GEOGRAPHIC DISTRIBUTION OF HOME PURCHASE LOANS WITHIN THE ASSESSMENT AREA					
Census Tract Income	1998		Through May 1999		% of Total Owner- Occupied Housing By Census Tract
	# Loans/%	\$(000s)/%	#Loans/%	\$(000s)/%	
Low	N/A	N/A	N/A	N/A	N/A
Moderate	6/27%	249/19%	2/8%	95/3%	11%
Middle	13/59%	728/55%	17/71%	2,085/72%	48%

Upper	3/14%	338/26%	5/21%	741/25%	41%
Total	22/100%	1,315/100%	24/100%	2,921/100%	100%

The geographic distribution of commercial and industrial loans reflects the bank is meeting identified credit needs for business loans in moderate-income census tracts within the assessment area. The following table shows that 16% of businesses within the assessment area are located in moderate-income census tracts, and the bank originated 15% of the number and dollar amount of its commercial and industrial loans there.

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL AND INDUSTRIAL LOANS WITHIN THE ASSESSMENT AREA					
Census Tracts	# Loans	% of Total	\$ (000s)	% of Total	% of Businesses By Census Tract
Low	N/A	N/A	N/A	N/A	N/A
Moderate	3	15%	160	15%	16%
Middle/Upper	17	85%	879	85%	84%
Total	20	100%	1,039	100%	100%

The geographic distribution of consumer loans to moderate-income census tracts reflects reasonable origination activity to moderate-income census tracts.

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS WITHIN THE ASSESSMENT AREA					
Census Tracts	# of Loans	% of Total	\$ (000s)	% of Total	% of Population in each Census Tract
Low	N/A	N/A	N/A	N/A	N/A
Moderate	7	35%	43	19%	20%
Middle/Upper	13	65%	187	81%	80%
Total	20	100%	230	100%	100%

Response to Complaints

The bank received no complaints applicable to its performance under the CRA regulation since its last CRA examination in June 1996.

Record of Compliance with Antidiscrimination Laws

A fair lending examination reviewed unsecured consumer installment loans originated during 1998 and 1999. Loan denials for single female applicants were compared to loan approvals for single male applicants. The examination also included a review of the bank's compliance with other antidiscrimination laws, such as the Home Mortgage Disclosure Act ("HMDA") and the Equal Credit

Opportunity Act (“ECO”).

The results of the examination did not identify any violations of the substantive provisions of antidiscrimination laws and regulations.