



# SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

August 23, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Fairmount Bank  
Charter Number 708193

8216 Philadelphia Road  
Baltimore, MD 21237

Office of the Comptroller of the Currency

Patriot Square  
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 major factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors;
- A substantial majority of loans originated are in the bank's AA;
- The record of lending reflects reasonable penetration to residential real estate loans; and
- The distribution of loans reflects reasonable dispersion among borrowers of different income levels.

**SCOPE OF EXAMINATION**

CRA activities at Fairmount Bank (Fairmount) were completed using full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2009 through December 31, 2011. Residential mortgage loans were determined to be the bank's primary loan product and were reviewed as part of this examination.

In order to evaluate Fairmount's record of originating residential mortgage loans, we analyzed loan data Fairmount collected and reported in accordance with the Home Mortgage Disclosure Act (HMDA) requirements. In order to ensure the reliability of HMDA loan data, we performed a data integrity examination during the first quarter of 2012. In conjunction with the data integrity examination, we evaluated processes employed by Fairmount to ensure the accuracy of collected HMDA data and tested a sample of Fairmount's reported HMDA loans. Specifically, we tested the accuracy of Fairmount's HMDA loan data by comparing it against Fairmount's loan file documentation. The data integrity examination revealed that Fairmount's publicly available HMDA loan data could be relied upon for the purposes of this CRA evaluation.

**DESCRIPTION OF INSTITUTION**

Fairmount is a small, traditional thrift, founded in 1879, that serves portions of Baltimore County, Harford County, and Baltimore City in the State of Maryland with two offices located in the city of Baltimore, Maryland. Fairmount's operations are that of a traditional thrift, primarily originating loans secured by one-to-four family dwellings and deriving funding through local retail deposits. At June 30, 2012, Fairmount maintained total assets of approximately \$79.3 million.

Fairmount's predominant product is residential mortgage loans secured by one- to four-family dwellings. Other loan types offered include: home equity lines of credit, home

construction/permanent, commercial real estate, and savings secured. Deposit products include: checking, savings, money market, IRA and Certificates of Deposit.

As of June 30, 2012, the total loan portfolio equaled \$54.3 million. Table 1 indicates the dollar amount, percentage to total loans, and percentage to total assets of each loan category.

<b>Loan Category</b>	<b>Amount (\$000's)</b>	<b>Percent of Net Loans</b>	<b>Percent of Total Assets</b>
Residential Real Estate/Mortgage	\$50,601	93.17%	63.79%
Commercial Nonmortgage	\$1,285	2.36%	1.62%
Consumer	\$2,426	4.47%	3.06%
<b>Total</b>	<b>\$54,312</b>	<b>100.0%</b>	<b>68.46%</b>

Since the previous CRA evaluation, Fairmount's total assets increased from \$41.5 million (as reported on December 31, 2006) to \$79.3 million (as reported on June 30, 2012), an increase of approximately 91 percent after the acquisition of the additional branch. As of June 30, 2012, Fairmount had \$60 million in total deposits. Net Tier 1 Capital was \$10.7 million as of that same date.

The main office is located at 8216 Philadelphia Road and the *Overlea/Fullerton Branch* is located at 7527 Belair Road. The main office has a Drive Thru and ATM. During the evaluation period, the bank opened the 8216 Philadelphia Road office on September 14, 2009 and opened the Overlea/Fullerton Branch on October 13, 2011 resulting from the acquisition of Fullerton Federal Savings Bank and the bank closed the 8201 Philadelphia Road office on September 11, 2009.

Fairmount offers a variety of deposit products to meet consumer and commercial banking needs. The bank's Internet website provides detailed information on products and services for both consumers and businesses. Banking services are standard with on-line banking to be added soon. Fairmount offers a personal checking account with no fees and a no minimum balance requirement.

The bank offers traditional business hours during the week at both offices and also offers Saturday lobby and drive-thru hours at the main office. Fairmount has an ATM at the drive-thru and for additional convenience; the bank is a member of the Money Pass network offering thousands of surcharge-free ATMs nationwide.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its assessment area. At the prior CRA examination dated January 29, 2007, Fairmount was rated "Satisfactory."

## DESCRIPTION OF FAIRMOUNT BANK ASSESSMENT AREA

Demographic Information for Full Scope Area: Fairmount AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	320	23.75	35.00	32.19	8.44	0.63
Population by Geography	1,138,319	19.25	34.73	34.77	10.68	0.56
Owner-Occupied Housing by Geography	265,912	11.01	32.77	42.30	13.92	0.00
Business by Geography	103,293	12.35	33.65	38.36	15.61	0.02
Farms by Geography	1,393	2.87	15.65	54.56	26.92	0.00
Family Distribution by Income Level	282,112	30.45	20.80	21.81	26.93	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	144,607	28.36	40.71	26.25	4.68	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		59,301 84,500 15%	Median Housing Value Unemployment Rate (2012 Bureau of Labor Statistics)	93,781 7.7%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2011 HUD updated MFI

Fairmount's AA is located within the Baltimore-Towson, Maryland (MD) Metropolitan Statistical Area (MSA), and includes selected census tracts in Harford County, MD, selected census tracts in eastern Baltimore County, MD, and includes all of Baltimore City, MD. Fairmount now has two office locations but the board did not adopt the entire MSA as an assessment area since it was determined that Fairmount could not adequately serve all of the communities within the MSA given its available resources including the additional office location. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The total population in the AA was 1,138,319 as of the 2000 U.S. Census. The unemployment rate fluctuation during the review period in the AA went from a low of 6.6% to a high of 9.0%. This range is higher than the Baltimore MSA range of 7.4% to 7.7% and higher than the state range of 7.0% to 7.4%.

Major employers in the AA and the surrounding area include Aberdeen Proving Ground, Harford County Public Schools, and Upper Chesapeake Health Systems in Harford County. In Baltimore County, major employers are the Social Security Administration/Centers for Medicare & Medicaid, Franklin Square Hospital, Towson University, and Greater Baltimore Medical Center. Major employers in Baltimore City are Johns Hopkins University and Hospital and Health System, University System of

Maryland, University of Maryland Medical System, MedStar Health, and LifeBridge Health.

The median cost of housing in the AA is \$93,781. The Updated Median Family Income for 2011 is \$84,500. The percentage of households below the poverty level is 15%. The AA's population is comprised of 282,112 families with the following family income distribution: 30.45% are low-income, 20.80% are moderate-income, 21.81% are middle-income, and 26.93% are upper-income.

In 2010, 339 lenders originated Home Mortgage Disclosure Act (HMDA) loans in the AA, according to the HMDA Peer Mortgage Data. Competition in the AA was strong with Bank of America, Wells Fargo Bank, and JPMorgan Chase Bank ranking as the top three lenders with market shares of 14.92%, 12.72%, and 6.01% respectively. Fairmount was ranked 109 with a market share of 0.09%. Other competitors consisted of large national banks and mortgage companies, large regional banks, and mortgage brokers with nationwide sources of funding.

According to the June 30, 2011 FDIC Summary of Deposits Market Share Report, Fairmount was ranked 42nd out of 58 institutions in their AA with 0.12% of deposits. Bank of America is ranked first with 72 offices and 30.32% of the deposits. Other financial institutions include Manufacturers and Traders Trust Company with 79 offices and 26.89% of the deposits, PNC Bank with 49 offices and 9.39% of the deposits, and Wells Fargo Bank with 38 offices and 8.29% of the deposits.

We reviewed a recent community contact and identified a credit need within the AA as credit extended with an economic development purpose. The community contact stated that financial institutions are conservative and very selective while waiting for the housing market to stabilize and lending is limited. The community contact also stated that where the bigger banks will decline a lending opportunity because the deal is outside of the underwriting standards, smaller community banks are willing to look deeper into the proposed credit and then render a decision.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

Fairmount's loan-to-deposit ratio is outstanding. The bank's loan-to-deposit ratio is more than reasonable for the standard for satisfactory performance. The bank's average loan-to-deposit ratio for the prior twenty quarters is 101%. This ratio has increased significantly from the prior review period when it was 57.1%. This increase is the result of the bank's commitment to invest deposits into loans within its AA and surrounding community.

### Lending in Assessment Area

Fairmount’s lending in their AA is outstanding. A substantial majority of the home mortgage loans originated during the evaluation period were within the AA. Fairmount exceeds the standard for satisfactory performance for lending in the AA. An analysis of the HMDA data disclosed that 86% of these loans were originated in the AA.

### Lending to Borrowers of Different Incomes

Fairmount’s lending to borrowers of different incomes meets the standard for satisfactory performance. Borrower distribution reflects reasonable penetration among residential real estate loans.

The level of all home mortgage loans, purchases, improvements, or refinances, originated to low-income borrowers is less than the percentage of low-income families in the AA. However, when considering the affordability of housing in the AA, this performance is good. The median cost of housing in the AA is \$94 thousand, based on 2000 census data. The HUD updated median family income for 2011 is \$84.5 thousand. This means that a low-income person earns less than \$42,250. Households below the poverty level are just above 15%. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. Also, in 2010, of the 403 lenders to low-income individuals in the AA, Fairmount was ranked 112th, with a market share of 0.08%. The level of home improvement loans to moderate-income borrowers is less than the percentage of moderate-income families in the AA. This is mitigated by the fact that competition is strong within the AA as 45% of the market share for home improvement loans is garnered by large national banks and credit unions.

The percentage of home purchase and home mortgage refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the MSA. This performance is excellent.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	30.45	11.11	20.80	33.33	21.81	11.11	26.93	44.44
Home Improvement	30.45	0.00	20.80	0.00	21.81	0.00	26.93	0.00
Home Mortgage Refinance	30.45	11.54	20.80	26.92	21.81	30.77	26.93	30.77

Source: 2009-2011 HMDA LAR.

### Geographic Distribution of Loans

Fairmount’s geographic distribution of loans meets the standard for satisfactory performance. The geographic distribution reflects reasonable dispersion in comparison to the geographical distribution of residential mortgage loans within the AA. Our review did not detect any conspicuous or unexplained gaps in the bank’s lending patterns.

### Geographic Distribution of Residential Real Estate Loans

The geographic distribution of loans in the AA is reasonable. The distribution of home purchase loans to low-income geographies is somewhat lower than the percentage of low-income families and reflects reasonable dispersion while the distribution of moderate-income geographies exceeds the percentage of moderate-income families and reflects excellent dispersion.

The distribution of home improvement loans to low- income geographies is significantly lower than the percentage of low-income families and reflects poor dispersion but is mitigated by the strong competition the bank faces. The distribution of home improvement loans to moderate-income geographies exceeds the percentage of moderate-income families and reflects excellent dispersion.

The distribution of home mortgage refinance loans to low-income geographies exceeds the percentage of low-income families. This performance is excellent dispersion. The distribution of home mortgage refinance loans to moderate-income geographies is near to the moderate-income families and reflects reasonable dispersion.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	11.01	7.14	32.77	39.29	42.30	35.71	13.92	17.86
Home Improvement	11.01	0.00	32.77	100.00	42.30	0.00	13.92	0.00
Home Mortgage Refinance	11.01	55.15	32.77	31.44	42.30	11.34	2.06	0.00

Source: 2009-2011 HMDA LAR.

### Responses to Complaints

Fairmount did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.