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January 19, 1994

Anne K. Bingaman, Assistant Attorney General
for the Antitrust Division
DEPARTMENT OF JUSTICE
10th and Constitution Avenues, Room 3100
Washington, D.C. 20530

Re: Community Bank Housing Fund

Dear Assistant Attorney General Bingaman:

This office represents The Annapolis Banking and Trust Company which proposes to enter a consortium of small local banks to provide credit to low and moderate income homeowners to make home improvements. Katherine A. Schlech has provided me with a copy of the Antitrust Division's Business Review Procedure and suggested I contact you to address the problem facing the proposed consortium.

I am enclosing herewith a draft outline of the proposed Community Bank Housing Fund which shall be funded by four small local banks. It is my understanding that without the support of the two stronger banks, Farmers and The Annapolis Banking and Trust Company, the smaller Banks, could not participate. As you can see, all losses will be shared evenly though each loan is booked by an individual bank in order to eliminate the duplication of costs and overhead.

As I noted in my letter to Katherine Schlech, the interest on all loans will be set by a formula based on the Wall Street Journal prime rate. None-the-less, the proposed format sets the terms of the formula which all four banks will follow in issuing commitments of this type of loan which, as noted, will be limited to a total funding of Two Million Dollars. Presumably, if the program is successful, the banks may wish to create a larger fund. It is the fixing of the interest rate by the four banks on all Community Bank Housing Fund loans as set forth in the draft outline, however, that concerns the banks.

This program has been developed from the concern of certain local elected officials that the Annapolis banks were not providing credit to low and moderate income homeowners in the Annapolis area. The banks, however do not wish to enter into such a consortium if by doing so they will be violating any provisions of the Federal Antitrust laws.

Your assistance in determining the Division's intention with respect to enforcement against the proposed consortium will be appreciated. We realize we have an equal problem with the State of Maryland Antitrust provisions which we will address after being advised of your position. If this inquiry should also be addressed to some other agency, such as the Federal Reserve, please advise.

Very truly yours,

William E. Kirk

WEK:pal
Enclosures

COMMUNITY BANK HOUSING FUND
Serving the Greater Annapolis Area

Proposed

Participants: Farmers National Bank of Maryland

Annapolis Bank & Trust

Bank of Annapolis

Annapolis National Bank

Proposed

Mission: To provide outreach to the low and moderate income households seeking credit to improve their homes. Credit granting criteria and terms will be more flexible than conventional bank products.

Proposed

Structure: An affiliation of Annapolis based community banks.

-- Co-operative marketing/P.R.

(Pool resources.)

-- Monthly Loan Approval Committee - Reps from each institution.

Three (3) affirmative votes out of four (4) would constitute an approval. Information on each approved loan application will be retained by each affiliate due to risk sharing.

-- Loans are shared on a rotating basis among the banks and each institution books its own loans. Those approved loans that ultimately become a loss to an institution will be shared evenly among the affiliates as specifically prescribed in an inter-creditor agreement.

-- Each institution commits a dollar limit towards an overall commitment of the program. Initially, the program limit has been set at \$2,000,000. The individual affiliate's limits have tentatively been set as follows:

Farmers National Bank of Maryland	- \$ 1,000,000
The Annapolis Banking & Trust Company	- 500,000
Annapolis National Bank	- 250,000
Bank of Annapolis	- 250,000

-- The loan program will have a common (generic) application and terms.

-- The common rates and terms represent a more flexible and lenient structure to the borrower than the traditional bank products in the marketplace. Obviously, as market conditions change, these will as well.

Term	Rate	Special Conditions
5 Years	WSJ Prime + 1% - Fixed	\$ 5,000 minimum
7 Years	WSJ Prime + 1½% - Fixed	\$ 5,000 minimum
10 Years	WSJ Prime + 2% - Fixed	\$10,000 minimum
15 Years	WSJ Prime + 2% - Fixed	5-year balloon \$15,000 minimum
20 Years	WSJ Prime + 2% - Fixed	5-Year balloon \$20,000 minimum

- 80% maximum loan to appraised value. Minimum loan of \$5,000; maximum loan of \$35,000.
- Second Deed of Trust or mortgage. May be a "Shelf Document."
- No separate title insurance required.
- We will serve the greater Annapolis market which will include Kent Island.

Underwriting

Criteria:

- 2-3 Years steady employment.
- "Clean" credit report or plausible delinquent credit history explanation.
- Total debt to income ratio using gross income of 50% or less.
- Maximum gross household income to qualify for program cannot exceed 100% of the median income for the Baltimore MSA.

Benefits:

- Better outreach than if done on an individual bank basis (cost sharing plus exposure).
- Flexible non-traditional bank loan products with lower qualifying criteria.
- Peer review at "loan committee" ensures fair treatment.
- Applicants need not "shop" for credit.
- Helps us meet our CRA goals of outreach into this segment of our Community.