

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, DC 20429

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: **March 31, 2009**

FDIC certificate number: **34929**

**First Bank of Delaware**

(Exact name of business issuer as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51-0389698**  
IRS Employer Identification  
Number

**Brandywine Commons II, Rocky Run Parkway, Wilmington, DE 19803**  
(Address of principal executive offices) (Zip code)

**302-529-5984**  
(Issuer's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES  NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

**11,418,901 shares** of Issuer's Common Stock, par value  
**\$0.05 per share**, issued and outstanding as of May 12, 2009

Page 1 of 47  
Exhibit index appears on page 42

## TABLE OF CONTENTS

	<u>Page</u>
<b>Part I: Financial Information</b>	
Item 1: Financial Statements (unaudited)	3
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3: Controls and Procedures	39
<b>Part II: Other Information</b>	
Item 1: Legal Proceedings	40
Item 2: Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3: Defaults Upon Senior Securities	41
Item 4: Submission of Matters to a Vote of Security Holders	41
Item 5: Other Information	41
Item 6: Exhibits	42

## **PART I - FINANCIAL INFORMATION**

### **ITEM 1: FINANCIAL STATEMENTS**

	<u>Page</u>
Consolidated Balance Sheets as of March 31, 2009 (unaudited) and December 31, 2008.....	4
Consolidated Statements of Income for the three months ended March 31, 2009 and 2008 (unaudited) .....	5
Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2009 and 2008 (unaudited) .....	6
Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008 (unaudited) .....	7
Notes to Consolidated Financial Statements (unaudited) .....	8

**First Bank of Delaware**  
**Consolidated Balance Sheets**  
**as of March 31, 2009 and December 31, 2008**  
**(Dollars in thousands, except per share data)**

*(See notes to consolidated financial statements)*

**First Bank of Delaware**  
**Consolidated Statements of Income**  
**For the Three Months Ended March 31, 2009 and 2008**  
(Dollars in thousands, except per share data)  
(unaudited)

	<u>Three months ended</u>	
	<u>March 31,</u>	
	2009	2008
<b>Interest income:</b>		
Interest and fees on loans	\$2,130	\$2,812
Interest and dividend income on federal funds sold and other interest-earning balances	7	133
Interest and dividends on investment securities	217	223
Total interest income	<u>2,354</u>	<u>3,168</u>
<b>Interest expense:</b>		
Demand interest-bearing	1	1
Money market and savings	67	227
Time less than \$100,000	101	106
Time \$100,000 or more	6	103
Other borrowed funds	2	-
Total interest expense	<u>177</u>	<u>437</u>
Net interest income	2,177	2,731
Provision for loan losses	725	800
Net interest income after provision for loan losses	<u>1,452</u>	<u>1,931</u>
<b>Non-interest income:</b>		
Loan advisory and servicing fees	5	41
Service fees on deposit accounts	83	108
Net gain on sales of loans	-	159
Subprime consumer loan fee income	470	1,805
Subprime credit and prepaid card products	2,157	2,864
Other income	32	188
	<u>2,747</u>	<u>5,165</u>
<b>Non-interest expenses:</b>		
Salaries and benefits	2,141	2,225
Occupancy	171	143
Depreciation	110	108
Legal	66	96
Professional expenses	231	87
Data processing and operational expenses	145	129
Credit card program processing expenses	123	117
Delaware franchise tax	36	186
Other expenses	476	469
	<u>3,499</u>	<u>3,560</u>
Income before provision for income taxes	700	3,536
Provision for income taxes	236	1,262
Net income	<u>\$464</u>	<u>\$2,274</u>
Net income per share:		
Basic	<u>\$0.04</u>	<u>\$0.20</u>
Diluted	<u>\$0.04</u>	<u>\$0.20</u>

*(See notes to consolidated financial statements)*

FIRST BANK OF DELAWARE  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
For the three months ended March 31, 2009 and 2008  
(Dollars in thousands)  
(Unaudited)

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance January 1, 2009 .....		\$ 570	\$ 13,371	\$ 25,659	\$ (384)	\$ 277	\$ 39,493
Stock based compensation		-	24	-	-	-	24
Deferred compensation stock distributions		-	-	-	384	-	384
Total other comprehensive income, net of taxes of \$3 .....	\$ 9	-	-	-	-	9	9
Net income .....	464	-	-	464	-	-	464
Total comprehensive income.....	<u>\$ 473</u>	-	-	-	-	-	-
Balance March 31, 2009		<u>\$ 570</u>	<u>\$ 13,395</u>	<u>\$ 26,123</u>	<u>\$ -</u>	<u>\$ 286</u>	<u>\$ 40,374</u>

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance January 1, 2008 .....		\$ 569	\$ 13,284	\$ 20,604	\$ (384)	\$ 87	\$ 34,160
Stock based compensation		-	23	-	-	-	23
Total other comprehensive income, net of taxes of \$40 .....	\$ 76	-	-	-	-	76	76
Net income .....	2,274	-	-	2,274	-	-	2,274
Total comprehensive income.....	<u>\$ 2,350</u>	-	-	-	-	-	-
Balance March 31, 2008		<u>\$ 569</u>	<u>\$ 13,307</u>	<u>\$ 22,878</u>	<u>\$ (384)</u>	<u>\$ 163</u>	<u>\$ 36,533</u>

*(See notes to consolidated financial statements)*

**First Bank of Delaware**  
**Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2009 and 2008**  
**(Dollars in thousands)**  
**(unaudited)**

	Three months ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 464	\$ 2,274
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	725	800
Stock compensation expense	24	23
Deferred compensation stock distribution	384	-
Depreciation and amortization	110	108
Amortization of premiums on investment securities	2	-
Net gain on sale of loans	-	(159)
Increase in value of bank owned life insurance	(11)	(16)
Decrease (increase) in accrued interest receivable and other assets	1,653	(657)
Decrease in due to short term loan servicers and purchasers	-	(84)
(Decrease) increase in accrued interest payable, accrued expenses and other liabilities	(513)	1,178
Net cash provided by operating activities	2,838	3,467
Cash flows from investing activities:		
Purchase of securities:		
FHLB Stock purchase	(336)	-
Principal collected on securities available for sale	265	195
Gross loans originated for sale	-	(13,340)
Proceeds from sales of loans	-	13,169
Net (increase) decrease in loans	(1,102)	2,031
Premises and equipment expenditures	(55)	(102)
Net cash provided by (used in) investing activities	(1,228)	1,953
Cash flows from financing activities:		
Net (decrease) increase in demand, money market and savings deposits	(3,048)	1,278
Net decrease in time deposits	(81)	(5,921)
Net cash used in financing activities	(3,129)	(4,643)
Increase (decrease) in cash and cash equivalents	(1,519)	777
Cash and cash equivalents, beginning of period	9,553	15,992
Cash and cash equivalents, end of period	\$ 8,034	\$ 16,769
Supplemental disclosure:		
Interest paid	\$ 97	\$ 481
Taxes paid	\$ 200	\$ -
Non-monetary transfers into other real estate owned	\$ 834	\$ -

*(See notes to consolidated financial statements)*

**FIRST BANK OF DELAWARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1:        Organization**

*First Bank of Delaware*

First Bank of Delaware, referred to as “we,” “FBD,” the “Bank” or the “Company,” is a commercial bank chartered pursuant to the laws of the State of Delaware, which commenced operations in June 1999. Our principal office is located at Brandywine Commons II, 1000 Rocky Run Parkway, Wilmington, Delaware, and our telephone number is (302) 529-5984. As a Delaware chartered bank, we are subject to the regulation and examination of the Office of the State Bank Commissioner of the State of Delaware. As a state chartered bank which is not a member of the Federal Reserve System, we are also subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”). The deposits which are held by us are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. We operate a traditional community banking business, as well as a consumer products division from which we derive a majority of our net income. We have also engaged in mezzanine financing, but discontinued those operations during 2008.

We presently conduct our principal business banking activities through our two offices in Wilmington, Delaware and a loan production office in Lewes, Delaware. We offer a variety of credit and depository banking services. Our commercial loan services are primarily offered to individuals and businesses in the Delaware area through two offices in New Castle County, Delaware.

Our consumer products division is comprised of two business segments, subprime consumer loans and subprime card products. The term “subprime” refers to the credit characteristics of individual borrowers. Subprime borrowers typically have weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. We make subprime consumer installment loans (with terms from 120 days to 2 years) nationally via the Internet and telephone. Subprime credit and prepaid card products are similarly offered nationally. The majority of subprime loan balances and subprime credit card receivables resulting from these products are sold without recourse. Since we introduced our consumer products, we have primarily relied on third parties to market and service these loans and cards. As a result of a consent order which we entered into with the FDIC in October 2008, we have begun to reduce our reliance on third parties and to make significant changes in our consumer products division. We have terminated most of the third party relationships through which such loans and cards were marketed and serviced. Instead, we plan to offer these products directly with assistance from professional marketers.

FBD encounters vigorous competition for market share from bank holding companies, national and regional banks and other community banks, thrift institutions and other non-bank financial organizations, such as mutual fund companies, insurance companies and brokerage companies.

FBD is subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine FBD for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

## **Note 2: Summary of Significant Accounting Policies:**

### ***Basis of Presentation:***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

### ***Risks and Uncertainties and Certain Significant Estimates:***

Our earnings include significant amounts of subprime consumer loan and subprime credit card product fee income. Also, FBD is dependent upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the results of operations are subject to risks and uncertainties surrounding their exposure to change in the interest rate environment. For example prepayments on fixed rate loans and mortgage-backed securities vary significantly and may cause significant fluctuations in interest margins. Our results of operations will be significantly affected by the ability of borrowers to repay their loans and many national consumer borrowers, including subprime consumer installment loan customers and subprime credit card customers, are considered to be high credit risks. Further, litigation in connection with such consumer loans and card products, if successful, and if not reimbursed by loan servicers and card marketers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition.

The primary marketer for our subprime credit cards generated credit card products which resulted in revenues greater than 10% of total revenues. In first quarter 2009, revenues totaled \$1.4 million, which represented 27.8% of total revenues of \$5.1 million. In first quarter 2008, that company marketed credit cards which generated \$1.9 million (22.8%) of total revenues of \$8.3 million.

At March 31, 2009, there were approximately \$6.2 million of subprime consumer loans outstanding on the balance sheet, which were originated via the internet and telephone. These loans generally have principal amounts of \$2,500 or less with terms of up to 24 months. Legislation eliminating or limiting interest rates upon such loans has from time to time been proposed.

We are an issuing bank for certain subprime credit card programs. We originate subprime credit card receivables currently through a limited number of marketers and sell or participate the majority of such receivables on a non-recourse basis. We earn a monthly fee for each active account which is reflected in non-interest income. In fourth quarter 2007, we began a test of our own credit card products, which we retain on the balance sheet and for which we retain all income, pay all expenses and bear the risk of loss. We terminated this test in 2008, but are planning to reoffer a direct credit card in 2009. At March 31, 2009 and December 31, 2008 we had approximately \$961,000 and \$1.3 million of credit card related receivables on our books.

We generate a substantial portion of our income by selling or participating subprime loans to various purchasers. Should purchasers be unable to acquire funding, sales might be curtailed or eliminated with a material reduction in income.

We offer prepaid cards on a national basis via the internet. Customers may load their own funds onto the cards via the internet, merchants, or by direct deposit from their employer. Upon loading, customers may access their funds through ATMs or point of sale locations. We earn non-interest income on these cards through interchange, monthly fees and float on the card deposits. We ceased marketing cards through several processors in the third and fourth quarters of 2008. The impact on revenue is expected to be minimal, as we plan to offer our own prepaid cards through selected processors in 2009.

On October 9, 2008, the Bank entered into a cease and desist stipulation and consent order with the Bank's primary federal regulator, the Federal Deposit Insurance Corporation ("FDIC"). The order required the Bank to exit certain programs, enhance its oversight of other programs, and develop business plans. The Bank was required to make refunds to customers of approximately \$700,000. These refunds have not been made, and were reflected on the March 31, 2009 balance sheet. The Bank expects that the \$700,000 in refund payments will be reimbursed by a third party vendor under indemnification agreements. Discussions with the FDIC are continuing to address FDIC concerns with the Bank's directly offered subprime loan and credit card products. One of those concerns is the use and control over third party vendors which the Bank is taking additional steps to address. We have hired a consultant to assist us in devising various plans which address concerns raised by the FDIC. These plans have been submitted to the FDIC for review. As a result of the discussions with the FDIC, all third party credit card relationships, with the exception of one program, have been terminated. All third party installment loan relationships have also been terminated, and we are now offering our installment loan product independently of these prior relationships. FBD's results of operations can be significantly affected by the ability of its third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets, could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, FBD may have to reduce or cease originations. The termination of any of these products would result in the loss of related income streams, which could be material to operations. Related vendor non-interest-bearing deposits would also be reduced or eliminated. The Bank has or is in process of exiting certain products with specific vendors, which has reduced revenues and related deposit balances. While the Bank is offering subprime installment loans directly, termination of prior third party relationships has reduced volume significantly. There can be no assurance as to the level or timing of revenues from the Bank's efforts to offer these products directly.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned, other than temporary impairment of investment securities and restricted stock and the realization of deferred tax assets. Consideration is given to a variety of factors in establishing these estimates.

Restricted stock, which represents required investment in the common stock of correspondent banks, is carried at cost and as of March 31, 2009 and December 31, 2008, consists of the common stock of FHLB of Pittsburgh. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock.

Management evaluates the restricted stock for impairment in accordance with Statement of Positions (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. Management's determination of whether these investments

are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the restricted stock as of March 31, 2009.

In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors. Since these estimates are dependent, to a great extent, on the general economy and other conditions that may be beyond FBD's control, it is at least reasonably possible that the estimates could differ materially in the near term.

In estimating other than temporary impairment of investment securities, securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for an anticipated recovery in the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

Our results of operations will be significantly affected by the ability of borrowers to repay their loans and subprime consumer borrowers, including subprime installment loan customers, are considered to be high credit risks. Further, litigation in connection with such consumer loans, if successful, and if not reimbursed by loan servicers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition.

We are subject to federal and state regulations governing virtually all aspects of its activities, including, but not limited to, lines of business, liquidity, investments, the payment of dividends and others. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial conditions. See "Note 4: Legal Proceedings".

### **Stock Based Compensation:**

We maintain a Stock Option Plan (the “Plan”) under which the Company grants options to its employees and directors. Under terms of the plan, 1.5 million shares of common stock are reserved for such options. The Plan provides that the exercise price of each option granted equals the market price of the Company’s stock on the date of grant. Any options granted vest within one to five years and have a maximum term of 10 years.

A summary of the activity related to the Company’s stock options granted under the Stock Option Plan during the three months ended March 31, 2009 is presented below:

	<b>For the Three Months Ended March 31,</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of year	905,251	\$ 2.54	1,029,988	\$ 2.49
Granted	108,000	1.33	59,000	2.76
Exercised	-	-	-	-
Forfeited	32,422	2.88	172,504	2.63
Outstanding, end of period	<u>980,829</u>	<u>2.39</u>	<u>916,484</u>	<u>2.61</u>
Options exercisable at period-end	<u>601,829</u>	<u>2.54</u>	<u>693,484</u>	<u>2.49</u>
Weighted average fair value of options granted during the period		<u>\$ 0.66</u>		<u>\$ 0.94</u>

	<b>For the Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Number of options exercised	-	-
Cash received	\$ -	\$ -
Intrinsic value	-	-
Tax benefit	-	-

The following table summarizes information about options outstanding under the Stock Option Plan as of March 31, 2009.

<b>Range of Exercise Prices</b>	<b>Options outstanding</b>			<b>Options exercisable</b>	
	<b>Shares</b>	<b>Weighted Average remaining contractual life (years)</b>	<b>Weighted Average exercise price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
\$0.78 to \$1.00	17,600	1.7	\$ 0.78	17,600	\$ 0.78
\$1.01 to \$1.50	115,150	9.4	1.32	7,150	1.20
\$1.51 to \$1.99	108,200	8.9	1.65	8,200	1.69
\$2.00 to \$2.69	237,979	5.3	2.50	237,979	2.50
\$2.70 to \$3.10	501,900	6.7	2.80	330,900	2.71
	<u>980,829</u>		<u>\$ 2.39</u>	<u>601,829</u>	<u>\$ 2.54</u>

During the three months ended March 31, 2009, \$24,000 was recognized in compensation expense for the Stock Option Plan, compared to \$23,000 in compensation expense for the three months ended

March 31, 2008. The fair value of each option granted in 2009 is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for those grants: dividend yield of 0%; expected volatility of 45.52%; risk-free interest rate of 1.99% and an expected life of 7.0 years. At March 31, 2009, there were 379,000 unvested options with a fair value of \$329,000 with \$220,000 of that amount remaining to be recognized as expense. At that date, the intrinsic value (the excess of the market price over the exercise price) of the 980,829 options outstanding was \$14,000, while the intrinsic value of the 601,829 exercisable (vested) options was \$14,000. During the first quarter 32,422 options were forfeited with a weighted average grant value of \$93,318.

### **Note 3: Recent Accounting Pronouncements**

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FASB Statement 157, *Fair Value Measurements*, defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP FAS 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with Statement 157.

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. We are currently reviewing the effect this new pronouncement will have on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an

anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 115-2 and FAS 124-2 must also early adopt FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. We are currently reviewing the effect this new pronouncement will have on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 107-1 and APB 28-1 must also early adopt FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* and FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. We are currently reviewing the effect this new pronouncement will have on our consolidated financial statements.

#### **Note 4: Legal Proceedings**

As previously reported, on October 3, 2008, we agreed to a Stipulation and Consent to the Issuance of an Order to Cease and Desist, Order for Restitution, and Order to Pay, referred to in this report as the "Consent Agreement," with the FDIC, pursuant to which we, among other things, in the interest of compromise and settlement, consented and agreed to the issuance by the FDIC of an Order to Cease and Desist, Order for Restitution and Order to Pay, referred to in this report as the "FDIC Order" or simply the "Order." The Order became effective October 9, 2008. The Consent Agreement and Order represent a resolution of the FDIC's charges relating to certain of our consumer lending programs set forth in a June 2008 notice of charges, as well as related litigation which had been pending in the United States District Court for the District of Delaware.

The Consent Agreement and Order detail that the FDIC has reason to believe that we engaged in unsafe and unsound banking practices and violations of law and/or regulations in connection with our consumer products division, including lending programs offered, marketed, administered, processed and/or serviced by third-parties. The Consent Agreement and Order do not constitute an admission on our part of the alleged practices and violations.

The Consent Agreement and Order required us to pay a civil money penalty in the amount of \$304,000, terminate certain third-party lending programs and relationships, and enhance our oversight and supervision, particularly with respect to our consumer products division. The penalty was recognized as an expense in the third quarter of 2008. More specifically, the Consent Agreement and Order has required us, with input from a third party consultant acceptable to the FDIC, to develop strategic and operating plans for the consumer products division; analyze, assess and respond to our management and staffing needs within the consumer products division; establish policies and procedures to periodically analyze and assess the performance of management and staff; and develop a written capital plan. We have hired a consultant acceptable to FDIC and have submitted the plans the consultant assisted us in devising to the FDIC for review. We have agreed to review and update our plans under the supervision of the FDIC on a periodic basis; to take actions necessary to eliminate or correct any violations or deficiencies noted by the FDIC; to ensure future compliance with laws and regulations; and to enhance our disclosures in connection with credit card solicitations.

Under the terms of the Consent Agreement and Order, we were required to establish two separate accounts to ensure the availability of restitution to certain consumers. One account in the amount of \$700,000 will be available to categories of consumers specified by the FDIC who activated certain credit card accounts. The other account totaled \$85,000 and was refunded to customers prior to December 31, 2008. Of that amount, FBD paid \$37,000, which was expensed in 2008. We expect to be indemnified by third parties with respect to the \$700,000, which was reflected on our balance sheet as of March 31, 2009.

The Consent Agreement and Order also provides that our board of directors will establish a compliance committee of independent directors for overseeing the affirmative actions required by the Order and that we will make periodic reports to the FDIC, furnish the terms of the Order to our shareholders, and notify the FDIC with respect to changes in our board of directors and senior management. We may not acquire any portfolios of consumer credit card accounts without prior compliance with certain of the requirements under the Consent Agreement and Order. We have agreed to use reasonable good faith efforts to cooperate with the FDIC in connection with its ongoing pursuit of related claims against third parties.

Pursuant to the Consent Agreement and Order, the FDIC has agreed to release and not to commence any action against us with respect to certain specified claims. The FDIC does, however, have the right to seek enforcement of the Consent Agreement and Order.

In order to comply with the Consent Agreement and Order, it will be necessary for us to change our operations, particularly with respect to our consumer products division. These changes, as well as the other direct and indirect costs of complying with the Consent Agreement and Order, are likely to have a material adverse effect on our results of operations and may have a material adverse effect on our business or financial condition.

### **Other Legal Proceedings**

From time to time we may be party to lawsuits that occur in the ordinary course of business. While any litigation involves an element of uncertainty, our management is of the opinion that our liability, if any, resulting from any of these pending actions will not have a material effect on our financial condition or results of operations. However, should we be successfully sued, our results of

operations and financial condition could be adversely affected. Also, see “ITEM 1: LEGAL PROCEEDINGS”

**Note 5: Segment Reporting**

Our reportable segments represent strategic businesses that offer different products and services. The segments are managed separately because each segment has unique operating characteristics, management requirements and marketing strategies. We have three reportable segments: community banking; subprime consumer loans; and subprime card products. The community banking segment is primarily comprised of the results of operations and financial condition of commercial loan and deposit operations. We additionally offer consumer products to the underbanked consumer including subprime consumer installment loans and subprime credit cards. Subprime consumer loans are loans with principal amounts of \$2,500 or less and terms of 120 days to 24 months. These loans typically are made in states that are outside of Delaware via the internet through a small number of marketers with rates and fees significantly different from other loan products offered. We also offer subprime card products, which consist of prepaid and credit cards, on a national basis through a small number of marketers. The majority of these installment loans and credit card receivables are sold or participated. As a result of discussions with the FDIC, most third party relationships involved in generating these subprime loans and credit cards have been terminated, which materially has reduced and continues to reduce revenues.

We evaluate the performance of the community banking segment based upon net income, return on equity and return on average assets. Subprime consumer installment loans and subprime card products are evaluated based upon net income.

Segment information at or for the three months ended March 31, 2009 and 2008, is as follows:

**March 31, 2009**

(dollars in thousands)

As of and for the three months ended

	Community Banking	Subprime Card Products	Subprime Consumer loans	Total
Net interest income	\$ 964	\$ 29	\$ 1,184	\$ 2,177
Provision for loan losses	125	175	425	725
Non-interest income	120	2,157	470	2,747
Non-interest expenses	876	1,358	1,265	3,499
Provision for income tax	29	219	(12)	236
Net income	<u>\$ 54</u>	<u>\$ 434</u>	<u>\$ (24)</u>	<u>\$ 464</u>

**Selected Balance Sheet Accounts:**

Total assets	\$ 83,670	\$ 23,479	\$ 6,293	\$ 113,442
Total loans, net	65,160	612	5,078	70,850
Total deposits	48,038	20,464	659	69,161

**March 31, 2008**

(dollars in thousands)

	Community Banking	Subprime Card Products	Subprime Consumer loans	Total
Net interest income	\$ 1,142	\$ 70	\$ 1,519	\$ 2,731
Provision for loan losses	65	-	735	800
Non-interest income	337	2,864	1,964	5,165
Non-interest expenses, including income taxes	977	1,426	1,157	3,560
Provision for income tax	156	538	568	1,262
Net income	<u>\$ 281</u>	<u>\$ 970</u>	<u>\$ 1,023</u>	<u>\$ 2,274</u>

**Selected Balance Sheet Accounts:****December 31, 2008**

Total assets	\$ 83,323	\$ 29,349	\$ 3,530	\$ 116,202
Total loans, net	67,849	768	2,690	71,307
Total deposits	47,528	24,509	253	72,290

**Note 6: Earnings Per Share:**

Earnings per share (“EPS”) consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of dilutive stock options granted through FBD’s stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. CSEs which are anti-dilutive are not included in the following calculation. At March 31, 2009, and 2008, respectively, there were 963,200 and 641,600 options that were not included in the calculation of EPS because the option exercise price was greater than the average market price for the period.

The following table is a comparison of EPS for the three months ended March 31, 2009, and 2008.

	<b>Three months ended March 31,</b>			
	<b><u>2009</u></b>	<b><u>2008</u></b>		
<b>Net Income</b>	\$464,000	\$2,274,000		
	<b>Shares</b>	<b>Per Share</b>	<b>Shares</b>	<b>Per Share</b>
Weighted average shares o/s for the period ended	11,401,301		11,377,101	
Basic EPS		\$0.04		\$0.20
Add common stock equivalents representing dilutive stock options	<u>6,374</u>		<u>47,394</u>	
Effect on basic EPS of dilutive CSE		\$ -		\$ -
Equals total weighted average Shares o/s and CSE (diluted)	<u>11,407,675</u>		<u>11,424,495</u>	
Diluted EPS		<u>\$0.04</u>		<u>\$0.20</u>

**Note 7: Fair Value of Financial Instruments:**

Management uses its best judgment in estimating the fair value of our financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement No. 157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* (“FSP 157-2”). FSP 157-2 delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that were recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Corporation has now adopted the provisions of SFAS 157, and has begun to account

and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* (“FSP 157-3”), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 was effective immediately. The adoption of SFAS 157 and FSP 157-3 had a minimal impact on the amounts reported in the consolidated financial statements.

SFAS No.157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FAS No.157 are described below:

**Basis of Fair Value Measurement:**

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and observable (i.e., supported by little or no market activity).

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Bank’s cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency for securities which the Bank owns may include investment-grade bonds and mortgage products. Such instruments are generally classified within level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, with valuations adjusted to reflect illiquidity and/or non-transferability, based on available market evidence. In the absence of such evidence, management’s best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows. The Bank does not have any such securities at present.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2009 and December 31, 2008 are as follows:

Description	March 31, 2009	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
Securities available for sale	\$ 22,376	\$ -	\$ 22,376	\$ -

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
Securities available for sale	\$ 22,631	\$ -	\$ 22,631	\$ -

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2009 and December 31, 2008 are as follows:

Description	March 31, 2009	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
Impaired loans	\$ 327	\$ -	\$ -	\$ 327
Other real estate owned	\$ 1,127	\$ -	\$ -	\$ 1,127

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
Impaired loans	\$ 1,080	\$ -	\$ -	\$ 1,080
Other real estate owned	\$ 293	\$ -	\$ -	\$ 293

Other real estate owned consists of assets acquired through, or in lieu of, loan foreclosure. They are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis.

## **ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is management’s discussion and analysis of significant changes in FBD’s results of operations, financial condition and capital resources presented in the accompanying consolidated financial statements. This discussion should be read in conjunction with the accompanying notes to the consolidated financial statements.

Certain statements in this document may be considered to be “forward-looking statements” as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words “may,” “believes,” “expect,” “estimate,” “project,” “anticipate,” “should,” “intend,” “probability,” “risk,” “target,” “objective” and similar expressions or variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; new service and product offerings by competitors and price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. FBD undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents FBD files from time to time with the FDIC, including FBD’s Annual Report on Form 10-K for the year ended December 31, 2008, Quarterly Reports on Form 10-Q, filed by the Company in 2009 and 2008, and any Current Reports on Form 8-K, as well as other filings.

### Subprime Consumer Installment Loans

Subprime installment loans are fully amortizing unsecured loans of \$2,500 or less with a term of up to 24 months and have anywhere between 4 and 48 scheduled repayments. These loans are offered via the internet and telephone. Customers must have an active checking account, valid identification and a regular source of income. These loans are subprime and a customer must meet additional credit underwriting criteria which may include minimum FICO credit scores and debt to income thresholds. Upon approval, a customer is then provided a loan agreement, which he or she signs, and the funds are then electronically deposited into the customer’s account. Principal and interest payments are due at least monthly. Customers may repay their loans via ACH transactions from their bank account or by money order. These loans carry an annual interest rate of approximately 87% to 334%. Loans that were previously offered had terms of up to 120 months, but we no longer make those loans and none are on our balance sheet.

We derive our authority to charge these rates of interest on these loans from the Federal Deposit Insurance Act, which establishes the maximum interest charges that state-chartered banks may charge to their customers. As a Delaware state-chartered depository institution, the Bank is subject to the interest rate laws of the State of Delaware, which do not impose limits on the rate of interest Delaware banks may charge on these loans.

Subprime consumer installment loans were previously offered through unaffiliated third party marketers and servicers with whom we contracted and who own the internet sites at which the loans are marketed. We have terminated our arrangements with these servicers and now offer our products directly, and may utilize professional marketers to help us obtain customers. We then perform underwriting, customer service and collection functions ourselves, or through directly contracted third

parties. We have developed an infrastructure, including oversight, to support the products, as a result of our consent order and discussions with the FDIC.

We sell the majority of our subprime consumer loans or participations in these loans to third party investors and plan on continuing this practice. These third party buyers are investors or investment groups familiar with the industry. These loans are sold or participated on a non-recourse basis and the investors bear the risk of loss for any defaults on these loans. We retain a portion of the income on these sold loans, which is recorded as non-interest income. We also retain some of the loans we originate. Income on these retained loans is recorded as interest income. Per our internal guidelines, we hold up to 25% of our capital in these loans at any one time. We currently originate loans via the internet or by telephone, which are mostly sold or participated to third parties. At March 31, 2009, there were approximately \$25.3 million of such loans outstanding of which \$6.2 million was retained on the Bank's books.

## Card Products

### *Prepaid Cards*

Through our membership with MasterCard International, we have become an issuing bank for prepaid cards. In third quarter 2005, we began offering prepaid cards primarily to the un-banked and under-banked customer on a national basis. Prepaid cards are cards that store information electronically on a magnetic stripe or computer chip and can be used to purchase goods or services. Funds are loaded onto cards which can be used in a manner similar to some debit/ATM cards and in some instances are similar to a MasterCard® or Visa® card. Prepaid cards are a substitute for cash, gift certificates and check payments. Cards can be either personalized with a customer name, non-personalized, reloadable or non-reloadable based on the type of card. Cards are issued through the internet, corporations or directly to the consumer. We have contracted with several card processors to provide front-end software platform functionality, cardholder support and card fulfillment. The bank earns revenues on these cards through interchange, monthly fees and float on the card deposits. We ceased marketing cards through several processors in the third and fourth quarters of 2008. The impact on revenue is expected to be minimal, as we plan to offer our own prepaid cards through selected processors in 2009.

### *Subprime Credit Card Products*

We are an issuing bank for certain credit card programs marketed principally to the subprime consumer. FBD originates credit card receivables and sells or participates the majority of such receivables into the secondary market without recourse. We previously offered our card products through various third parties, but have terminated all third party subprime credit card programs, with one exception, as a result of our consent order and discussions with the FDIC. FBD will continue to service cardholders in certain terminated programs until the cards expire. The subprime credit card receivables are sold or participated on a non-recourse basis and the purchasers bear the risk of loss for any default on the receivables. Our results of operations can be significantly affected by the ability of our third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets, could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, we may have to reduce or cease originations. We earn a monthly fee for each active account, as well as a monthly management fee. In fourth quarter 2007, we began a test of our own credit card products, which we retain on the balance sheet and for which we retain all income, pay all expenses and bear the risk of loss. We terminated this test in 2008, but are planning to reoffer a direct credit card in 2009. At March 31, 2009 FBD had \$961,000 of credit card receivables on its books.

## **Financial Condition:**

*March 31, 2009, Compared to December 31, 2008*

Total assets decreased \$2.8 million to \$113.4 million at March 31, 2009, versus \$116.2 million at December 31, 2008. This decrease reflected a \$1.5 million decrease in cash equivalents and a \$1.7 million decrease in other assets those respective dates.

*Loans:*

The loan portfolio represents FBD's largest asset, and is its most significant source of interest income. Net loans decreased \$457,000, or 0.64%, to \$70.9 million at March 31, 2009, versus \$71.3 million at December 31, 2008. The loan portfolio consists of commercial real estate, construction and other commercial loans, subprime credit card receivables and subprime consumer installment loans. Commercial real estate loans comprise the majority of the loan portfolio. Commercial and commercial real estate loans amounted to \$50.7 million at March 31, 2009 compared to \$50.7 million at December 31, 2008. Construction and land development loans amounted to \$11.3 million and \$12.6 million respectively, at those dates. At March 31, 2009, there were \$7.2 million in consumer loans outstanding versus \$5.4 million at December 31, 2008.

*Investment Securities:*

Investment securities available-for-sale are investments, which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$22.4 million at March 31, 2009, a decrease of \$255,000, or 1.13%, from year-end 2008. This decrease resulted primarily from pay downs of mortgage-backed securities. At March 31, 2009, and December 31, 2008, the portfolio had net unrealized gains of \$433,000 and \$427,000, respectively.

*Cash and Cash Equivalents:*

Cash and due from banks, interest-bearing deposits and federal funds sold comprise this category, which consists of FBD's most liquid assets. The aggregate amount in these three categories decreased by \$1.6 million to \$8.0 million at March 31, 2009 from \$9.6 million at December 31, 2008. Federal funds sold increased by \$2.1 million, between those respective dates, to \$6.1 million at March 31, 2009, which was more than offset by a decrease in cash and due from banks.

*Federal Home Loan Bank Stock:*

Federal Home Loan Bank stock increased to \$475,000 at March 31, 2009 from \$139,000 at December 31, 2008. The amount of stock required to be held increased as additional borrowings were made. When the borrowings were repaid the stock was not redeemed in accordance with current Federal Home Loan Bank policy.

*Fixed Assets:*

Bank premises and equipment, net of accumulated depreciation was \$3.4 million at March 31, 2009 and December 31, 2008, respectively. Minimal purchases of new equipment were offset by depreciation.

*Bank Owned Life Insurance:*

The income earned on these policies is reflected in non-interest income. Bank owned life insurance amounted to \$1.8 million at March 31, 2009 and December 31, 2008.

*Other Assets:*

Other assets decreased by \$1.7 million to \$5.1 million at March 31, 2009, compared to December 31, 2008 due to decreased receivables from third party vendors. An additional \$700,000 of the remaining balance reflected a receivable related to customer refunds from a creditworthy vendor. FBD has no intangible assets.

*Deposits:*

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits and may include some brokered deposits, represent the major sources of funding. Deposits are generally solicited from the Delaware market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships. We also obtain deposits from our card product customers.

Total deposits decreased by \$3.1 million to \$69.2 million at March 31, 2009, from \$72.3 million at December 31, 2008. Average transaction accounts in the current quarter decreased 10.5% or \$6.9 million over the comparable prior year quarter. The decrease reflected the impact of terminating third party relationships related to subprime products, and reduced volume from other subprime products. Time deposits decreased \$81,000 to \$12.3 million at March 31, 2009, versus \$12.4 million at December 31, 2008 as these higher cost deposits matured and were not renewed.

*Other Liabilities:*

Other liabilities, including accrued interest payable and accrued expenses, decreased by \$513,000 or 11.6% to \$3.9 million at March 31, 2009 from \$4.4 million at December 31, 2008. The decrease is primarily due to deferred compensation plan distributions. The distributions were authorized in conjunction with the vesting of several participant investment accounts as noted in our form 10K under non-interest expenses.

*Shareholders' Equity:*

Total shareholders' equity increased \$881,000 to \$40.4 million at March 31, 2009, versus \$39.5 million at December 31, 2008. This increase primarily reflected net income of \$464,000 and deferred compensation plan distributions of \$384,000.

## **Three Months Ended March 31, 2009 Compared to March 31, 2008**

### **Results of Operations:**

#### *Overview*

Our net income decreased to \$464,000 or \$0.04 per diluted share for the three months ended March 31, 2009, compared to \$2.3 million, or \$0.20 per diluted share for the comparable prior year period. The \$1.8 million decrease in net income reflected a \$1.3 million decrease in subprime consumer loan fee income and a \$707,000 decrease in income from subprime credit card and prepaid card products. This decline reflected the termination of certain third party lending programs as discussed below. Net interest income also decreased in first quarter 2009 to \$2.2 million from \$2.7 million in the comparable prior year period. These were the primary factors which resulted in a return on average assets and average equity of 1.60% and 4.65% respectively, in the first quarter of 2009 compared to 7.40% and 25.83% respectively for the same period in 2008.

In October 2008, we entered into a Consent Order with the FDIC regarding certain aspects of our consumer products division. As a result of the FDIC Order, all third party credit card relationships, with the exception of one program, have been terminated. All third party subprime installment loan relationships have also been terminated, and we are now offering our subprime installment loan product independently of these prior relationships. We are now in discussions with the FDIC in a continuing effort to address certain FDIC concerns with our directly offered subprime loan and credit card products, including our use and control over third party vendors. See Note 4 to the financial statements-“ Legal Proceedings”. As a result of the termination of third party subprime credit card and subprime consumer installment loan marketer and servicer relationships, related deposits will decrease. We have begun offering various credit products directly, however there can be no assurance as to the timing or volume of related revenues.

## Analysis of Net Interest Income

In addition to significant amounts of fee income, our earnings have also depended upon net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is impacted by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. Non-accrual loans are included in the average loans receivable balance.

	For the three months ended March 31, 2009			For the three months ended March 31, 2008		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:						
Federal funds sold and other interest- earning assets	\$ 8,903	\$ 7	0.32%	\$ 16,635	\$ 133	3.21%
Securities	22,110	217	3.98%	17,102	223	5.16%
Loans receivable	74,591	2,130	11.58%	78,585	2,812	14.35%
Total interest-earning assets	105,604	2,354	9.04%	112,322	3,168	11.31%
Other assets	10,406			10,907		
Total assets	<u>\$ 116,010</u>			<u>\$ 123,229</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 36,249			\$ 35,945		
Demand interest-bearing	244	\$ 1	1.66%	474	\$ 1	0.85%
Money market & savings	22,510	67	1.21%	29,523	227	3.08%
Time deposits	12,384	107	3.50%	16,994	209	4.93%
Total deposits	71,387	175	1.00%	82,936	437	2.11%
Total interest-bearing deposits	35,138	175	2.02%	46,991	437	3.73%
Other borrowings	911	2	0.89%	-	-	-
Total interest-bearing liabilities	<u>\$ 36,049</u>	<u>\$ 177</u>	<u>1.99%</u>	<u>\$ 46,991</u>	<u>\$ 437</u>	<u>3.73%</u>
Total deposits	72,298	177	1.00%	82,936	437	2.11%
Non interest-bearing liabilities	3,843			4,976		
Shareholders' equity	39,869			35,317		
Total liabilities and shareholders' equity	<u>\$ 116,010</u>			<u>\$ 123,229</u>		
Net interest income		<u>\$ 2,177</u>			<u>\$ 2,731</u>	
Net interest spread			<u>7.05%</u>			<u>7.58%</u>
Net interest margin			<u>8.36%</u>			<u>9.75%</u>

The rate volume table below presents an analysis of the impact on interest income and expense resulting from changes in average volumes and rates during the period. Changes due to rate and volume variances have been allocated to rate.

### Rate/Volume Table

	Three months ended March 31, 2009 versus March 31, 2008 (dollars in thousands)		
	Due to change in:		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earned on:			
Federal funds sold	\$ (6)	\$ (120)	\$ (126)
Securities	49	(55)	(6)
Loans	(114)	(568)	(682)
<b>Total interest-earning assets</b>	<b>(71)</b>	<b>(743)</b>	<b>(814)</b>
Interest expense of			
deposits			
Interest-bearing demand deposits	1	(1)	-
Money market and savings	21	139	160
Time deposits	40	62	102
<b>Total deposit interest expense</b>	<b>62</b>	<b>200</b>	<b>262</b>
Other borrowings	(2)	-	(2)
<b>Total interest expense</b>	<b>60</b>	<b>200</b>	<b>260</b>
<b>Net interest income</b>	<b>\$ (11)</b>	<b>\$ (543)</b>	<b>\$ (554)</b>

The net interest margin decreased 139 basis points to 8.36% for the three months ended March 31, 2009, versus the prior year comparable period. The majority of the decrease resulted from a decrease in higher yielding average subprime consumer installment loan balances. Accordingly the average yield on interest-earning assets also decreased 227 basis points to 9.04% for the three months ended March 31, 2009, from 11.31% for the prior year comparable period. Without the consumer installment loans, net interest margins would have been approximately 3.60% in first quarter 2009 and 4.33% in first quarter 2008. The resulting 73 basis point decrease reflected the impact of a declining rate environment and a reduction of \$4.3 million of high yielding mezzanine finance loans. The average rate paid on interest-bearing liabilities decreased 174 basis points to 1.99% for the three months ended March 31, 2009, from 3.73% in the prior year comparable period, as FBD chose not to renew higher priced fixed rate time deposits as it anticipated further declines in interest rates. Yields on total deposits also decreased 111 basis points, to 1.00% in first quarter 2009 from 2.11% in first quarter 2008 primarily as a result of the declining rate environment.

Net interest income decreased \$554,000, or 20.3%, to \$2.2 million for the three months ended March 31, 2009, from \$2.7 million for the prior year comparable period. The decrease resulted primarily from lower loan balances and lower rates thereon. A \$260,000 decrease in interest expense and a \$126,000 decrease in federal funds income, reflected lower time deposit balances and the resulting lower federal funds sold balances, and lower yields.

Total interest income decreased \$814,000, or 25.7%, to \$2.4 million for the three months ended March 31, 2009, from \$3.2 million for the prior year comparable period. Interest and fees on loans decreased \$682,000 to \$2.1 million for the three months ended March 31, 2009, from \$2.8 million for the prior year comparable period. The decrease reflected those factors noted in the preceding paragraph. Interest and dividends on investment securities decreased \$6,000 to \$217,000 for the three months ended

March 31, 2009, from \$223,000 for the prior year comparable period, even though average balances were \$5 million higher in first quarter 2009, due to lower. Federal funds sold income decreased \$126,000, or 94.7%, to \$7,000 in first quarter 2009, compared to \$133,000 in first quarter 2008. The decrease reflected lower average federal funds sold balances as FBD reduced balances of higher cost time deposits funding such balances and lower rates. As a result of the lower rates, the yield decreased to 0.32% from 3.21% between those respective periods. In first quarter 2009, average federal funds sold decreased \$7.7 million, to \$8.9 million in first quarter 2009, from \$16.6 million in first quarter 2008.

Total interest expense decreased \$260,000, or 59.5%, to \$177,000 for the three months ended March 31, 2009, from \$437,000 for the prior year comparable period. That decrease reflected the impact of reduced levels of higher cost time deposits and lower short-term interest rates on the cost of interest-bearing liabilities which decreased 174 basis points to 1.99% in first quarter 2009 from 3.73% in first quarter 2008. Total interest-bearing liabilities decreased \$10.9 million, or 23.3%, to \$36.0 million in first quarter 2009, from \$47.0 million in first quarter 2008.

Interest expense on time deposits (certificates of deposit) decreased \$102,000, or 48.8%, to \$107,000 for first quarter 2009, from \$209,000 for the prior year comparable period. This decrease reflected lower rates and the maturity and non renewal of higher cost certificates of deposit. Average certificates of deposit outstanding decreased \$4.6 million, or 27.1%, to \$12.4 million, from \$17.0 million in the prior year comparable period. Additionally, the lower interest rate environment led to a decrease in average rate of 142 basis points to 3.51% for the quarter ended March 31, 2009 from 4.93% in the prior year comparable period.

### **Provision for Loan Losses**

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses decreased by \$75,000 to \$725,000 for the three months ended March 31, 2009, from \$800,000 for the prior year comparable period. The 2009 amount primarily reflected \$593,000 of net charge-offs on subprime consumer installment loans and \$395,000 of net charge-offs on subprime credit cards issued directly by us. Additionally it reflected the impact of a \$363,000 commercial loan charge-off. This commercial loan was partially charged-off and the remaining balance of \$834,000 was transferred to other real estate owned. These amounts were reflected in total net charge-offs of \$1.3 million for the quarter ended March 31, 2009.

### **Non-Interest Income**

Total non-interest income decreased \$2.5 million to \$2.7 million for the three months ended March 31, 2009, versus \$5.2 million for the prior year comparable period. Subprime credit and prepaid card product income decreased by \$707,000 or 24.7% for the three months ended March 31, 2009 compared to the quarter ended March 31, 2008. Revenue on card products is earned primarily on the number of active accounts, subject to certain minimum payments from our primary marketer. The decline in revenue reflected the termination of certain relationships. The Bank also recorded incentive income related to issuing cards of \$131,000 in first quarter 2009 card product income, compared to \$975,000 in the prior year period. This decrease reflected lower new card originations. The primary marketer for our directly offered subprime credit cards generated \$1.4 million in revenue or 27.8% of total revenue in first quarter 2009. Fees on installment loans decreased by \$1.3 million to \$470,000 or 74.0% for the three months ended March 31, 2009 compared to \$1.8 million in the prior year comparable period primarily as a result of decreases in the volume of such products reflecting terminations of certain relationships.

## **Non-Interest Expenses**

Total non-interest expenses decreased \$61,000 or 1.7% to \$3.5 million for the three months ended March 31, 2009, from \$3.6 million for the prior year comparable period. Salaries and employee benefits decreased \$84,000 or 3.8%, to \$2.1 million for the three months ended March 31, 2009, from \$2.2 million for the prior year comparable period. The \$84,000 decrease reflected reductions in incentive expenses which offset costs for additional personnel.

Occupancy expense increased \$28,000, or 19.6%, to \$171,000 for first quarter 2009, versus \$143,000 for first quarter 2008. The increase reflected increased rent expense.

Depreciation expense increased \$2,000, or 1.8% to \$110,000 for the three months ended March 31, 2009, versus \$108,000 for the prior year comparable period.

Legal fees decreased \$30,000, or 31.3%, to \$66,000 in first quarter 2009, compared to \$96,000 in first quarter 2008 primarily due to expenses related to product diversification paid in 2008.

Professional expenses increased \$144,000, or 165.5%, to \$231,000 in first quarter 2009, compared to \$87,000 in first quarter 2008 primarily due to fees related to information and security systems.

Data processing and operational expense increased \$16,000, or 12.4%, to \$145,000 in first quarter 2009 from \$129,000 in first quarter 2008. The increase reflected system upgrades and other expenditures related to product diversification.

Credit card program processing expenses increased \$6,000, or 5.1%, to \$123,000 in first quarter 2009, compared to \$117,000 in first quarter 2008 primarily due to processing fees related to our internally offered subprime card products.

Delaware franchise tax decreased \$150,000, or 80.7%, to \$36,000 in first quarter 2009 from \$186,000 in first quarter 2008. The decrease resulted primarily from decreases in taxable income.

Other expenses increased \$7,000, or 1.5% to \$476,000 for the three months ended March 31, 2009, from \$469,000 for the prior year comparable period.

## **Provision for Income Taxes**

The provision for income taxes decreased \$1.0 million, to \$236,000 for the three months ended March 31, 2009, from \$1.3 million for the prior year comparable period. This decrease was primarily the result of a decrease in pre-tax income. The effective tax rate was approximately 34% in 2009 and 36% in 2008 reflecting the impact of a fixed amount of tax exempt income on a lower taxable base and a higher estimated tax rate in 2008.

## **Commitments, Contingencies and Concentrations**

FBD is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit totaling \$147.3 million at March 31, 2009. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

Credit risk is defined as the possibility of sustaining a loss due to the failure of the other parties to a financial instrument to perform in accordance with the terms of the contract. The maximum exposure to credit loss under commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. FBD uses the same underwriting standards and policies in making credit commitments as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent potential credit risk were comprised of commitments to extend credit of approximately \$147.2 million and \$166.8 million and standby letters of credit of approximately \$131,000 and \$131,000 at March 31, 2009, and December 31, 2008, respectively. The commitments for 2009 and 2008 respectively include \$141.9 million and \$160.7 million in credit card commitments for which the resulting balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. The Bank has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The bank has written contingency plans that document the steps required to effectuate the termination of credit card lines. The purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. FBD evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

## Regulatory Matters

The following table presents the FBD's capital regulatory ratios at March 31, 2009, and December 31, 2008:

<i>(Dollars in thousands)</i>	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>At March 31, 2009</b>						
Total risk based capital.....	\$41,166	47.45%	\$6,940	8.00%	\$8,676	10.00%
Tier one risk based capital.....	40,081	46.20	3,470	4.00	5,205	6.00
Tier one leverage capital .....	40,081	34.63	5,787	5.00	5,787	5.00
<b>At December 31, 2008</b>						
Total risk based capital.....	\$40,358	45.07%	\$7,164	8.00%	\$8,955	10.00%
Tier one risk based capital.....	39,216	43.79	3,582	4.00	5,373	6.00
Tier one leverage capital .....	39,216	32.21	6,088	5.00	6,088	5.00

In the third quarter of 2009, a 10-20 basis point special assessment against total deposits will likely be paid by all banks, to replenish the FDIC insurance fund.

### Dividend Policy

We have not paid any cash dividends on our common stock, but may consider dividend payments in the future.

### Liquidity

Financial institutions must maintain liquidity to meet day to day requirements of depositors and borrowers, take advantage of market opportunities and provide a cushion against unforeseen needs. Liquidity needs can be met by utilizing cash and federal funds sold, converting assets to cash through computer repurchase or sale various or drawing upon lines of credit cash generated by increasing deposits represents the primarily source of liquidity.

Regulatory authorities require us to maintain certain liquidity ratios and to maintain available funds, or the capability to obtain available funds at reasonable rates, in order to satisfy commitments to borrowers and the demands of depositors. In response to these requirements, we have formed an Asset/Liability Committee ("ALCO"), comprised of selected members of the board of directors and senior management, which monitor such ratios. The purpose of the Committees is in part, to monitor liquidity and adherence to the ratios in addition to managing the relative interest rate risk. ALCO meets at least quarterly.

Our most liquid assets, consisting of cash and due from banks, interest bearing deposits with banks and federal funds sold, totaled \$8.0 million at March 31, 2009, compared to \$9.5 million at December 31, 2008, due primarily to a decline in cash and due from banks. Loan maturities and repayments, if not reinvested in loans, also are immediately available for liquidity. Funding requirements have historically been satisfied primarily by generating core deposits and certificates of deposit with competitive rates. At March 31, 2009, we had aggregate outstanding commitments (including unused lines of credit and

letters of credit) of \$147.3 million. The commitments include \$141.9 million in credit card commitments for which the resulting balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. We have the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. We have written contingency plans that document the steps required to effectuate the termination of credit card lines. Also, the purchasers maintain deposit balances at FBD which provide support for daily card funding. We closely monitor the liquidity resources of each purchaser. Certificates of deposit scheduled to mature in one year totaled \$8.0 million at March 31, 2009. FBD anticipates that it will have sufficient funds available to meet its current commitments.

Target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets and projected future outflows of deposits and other liabilities. We are a member of the Federal Home Loan Bank and have a credit line exceeding \$21 million, all of which is available. We have also established a line of credit from a correspondent bank to assist in managing the liquidity position. That line of credit totaled \$4.0 million and was unused at March 31, 2009. Securities also represent a primary source of liquidity; accordingly, investment decisions generally reflect liquidity over other considerations.

Our primary short-term funding sources are certificates of deposit and our securities portfolio. The circumstances that are reasonably likely to affect those sources are as follows. We have historically been able to generate certificates of deposit by matching Philadelphia and Delaware market rates or paying a premium rate of 25 to 50 basis points over those market rates. It is anticipated that this source of liquidity will continue to be available; however, its incremental cost may vary depending on market conditions. The securities portfolio is also available for liquidity. Numerous investment companies would likely provide repurchase agreements up to the amount of the market value of the securities.

The ALCO is responsible for managing liquidity and interest sensitivity. Its primary objective is to maximize net interest income while configuring the interest-sensitive assets and liabilities to manage interest rate risk and provide adequate liquidity.

### **Investment Securities Portfolio**

At March 31, 2009, FBD had identified certain investment securities that are being held for indefinite periods of time, including securities that will be used as part of our asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of our asset/liability management. Available for sale securities consisted primarily of U.S. Government Agency securities. The book and market values of investment securities available for sale were approximately \$22.0 and \$22.4 million as of March 31, 2009. The net unrealized gain on investment securities available for sale as of that date was \$433,000.

## Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction, residential construction, as well as residential mortgages, home equity loans, subprime consumer installment loans, subprime credit card receivables and other consumer loans. Commercial loans are primarily term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Our commercial loans typically range between \$250,000 and \$2,000,000 but customers may borrow significantly larger amounts up to the secured legal lending limit of approximately \$10.6 million at March 31, 2009. Individual customers may have several loans often secured by different collateral. The majority of subprime consumer installment loans and subprime credit card receivables are sold or participated without recourse, as internal guidelines limit the retention of such loans to 25% of capital. Net loans decreased \$457,000, to \$70.9 million at March 31, 2009, from \$71.3 million at December 31, 2008.

The following table sets forth the gross loans by major categories for the periods indicated:

(dollars in thousands)	As of March 31, 2009		As of December 31, 2008	
	Balance	% of Total	Balance	% of Total
Commercial and				
commercial real estate	\$ 50,703	69.3	\$ 50,678	68.3
Construction and land development	11,279	15.4	12,594	17.0
Non real estate secured	3,046	4.2	4,614	6.2
Unsecured	990	1.3	990	1.3
	<u>66,018</u>	<u>90.2</u>	<u>68,876</u>	<u>92.8</u>
Subprime credit card receivables	961	1.3	1,336	1.8
Subprime consumer installment loans	6,223	8.5	4,004	5.4
Consumer - other loans	3	0.0	26	0.0
Total loans	<u>73,205</u>	<u>100%</u>	<u>74,242</u>	<u>100%</u>
Less: allowance for loan losses	<u>(2,355)</u>		<u>(2,935)</u>	
Net loans	<u>\$ 70,850</u>		<u>\$ 71,307</u>	

## Credit Quality

Our written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with independent credit department approval for the majority of new loan balances. A committee of the Board of Directors oversees the loan approval process to monitor that proper standards are maintained, while approving the majority of commercial loans.

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of interest or principal for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms.

While a loan is classified as non-accrual or as an impaired loan and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

The following summary shows information concerning loan delinquency and other non-performing assets at the dates indicated.

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
(dollars in thousands)		
Loans accruing, but past due 90 days or more	\$ -	\$ -
Non-accrual loans	772	2,116
Total non-performing loans (1)	772	2,116
Other real estate owned	1,127	293
Total non-performing assets (2)	\$ 1,899	\$ 2,409
Non-performing loans as a percentage of total loans net of unearned income	1.05%	2.85%
Non-performing assets as a percentage of total assets	1.67%	2.07%

(1) Non-performing loans are composed of (i) loans that are on a nonaccrual basis; (ii) accruing loans that are 90 days or more past due and (iii) restructured loans.

(2) Non-performing assets are composed of non-performing loans and other real estate owned (assets acquired in foreclosure).

Non accrual-loans of \$772,000 at March 31, 2009 were decreased from \$2.1 million at December 31, 2008, primarily as a result of the transfer of \$834,000 of non accrual commercial loans to other real estate owned and a \$414,000 reduction in subprime consumer installment nonaccrual loans. The \$834,000 transfer represented two loans to a single borrower, after a \$363,000 charge-off. During the

period a loan of \$267,000 was transferred to non-accrual. There were no loans accruing, but past due 90 days or more at March 31, 2009.

Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At March 31, 2009, all identified problem loans are included in the preceding table or are classified with a specific reserve allocation in the allowance for loan losses (see "Allowance For Loan Losses"). Management believes that the appraisals and other estimates of the value of the collateral pledged against the non-accrual loans generally exceed the amount of its outstanding balances.

The recorded investment in loans which were classified as impaired totaled \$772,000 at March 31, 2009, and \$2.1 million at December 31, 2008, and the amount of related valuation allowances was \$445,000 and \$1.0 million respectively. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At March 31, 2009, and December 31, 2008, internally classified accruing loans totaled approximately \$0 and \$0 respectively

We do not classify short term consumer loans as substandard; however, they may be classified as such for regulatory purposes. We had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of \$166,000 at March 31, 2009 and \$174,000 at December 31, 2008; and (ii) 60 to 89 days past due, at March 31, 2009 and December 31, 2008, in the aggregate principal amount of \$0 and \$269,000, respectively.

#### **Other Real Estate Owned:**

There were two properties held in other real estate owned at March 31, 2009 with a value of \$1.1 million. A total of \$834,000 secured by land and improvements for new condominium construction was transferred to other real estate owned in first quarter 2009. There were two loans totaling \$1.2 million secured by that property, of which \$363,000 was charged off, with the balance of \$834,000 transferred to other real estate owned.

At March 31, 2009, FBD had no credit exposure to "highly leveraged transactions" as defined by the Federal Reserve Bank.

## Allowance for Loan Losses

An analysis of the allowance for loan losses for the three months ended March 31, 2009, and 2008, and the year ended December 31, 2008 is as follows:

(dollars in thousands)	For the three months ended March 31, 2009	For the year ended December 31, 2008	For the three months ended March 31, 2008
Balance at beginning of period.....	\$2,935	\$ 2,581	\$2,581
Charge-offs:			
Commercial and commercial real estate.....		170	45
Construction and land development.....	363	-	-
Subprime credit cards.....	399	1,450	-
Subprime consumer loans.....	672	2,508	1,012
Consumer .....	-	137	-
Total charge-offs	<u>1,434</u>	<u>4,265</u>	<u>1,057</u>
Recoveries:			
Commercial and commercial real estate....	-	-	38
Subprime credit cards.....	4	4	-
Subprime consumer loans.....	79	392	-
Consumer.....	46	38	-
Total recoveries.....	<u>129</u>	<u>434</u>	<u>38</u>
Net charge-offs .....	<u>1,305</u>	<u>3,831</u>	<u>1,019</u>
Provision for loan losses.....	<u>725</u>	<u>4,185</u>	<u>800</u>
Balance at end of period.....	<u>\$2,355</u>	<u>\$2,935</u>	<u>\$2,362</u>
Average loans outstanding (1).....	<u>\$74,591</u>	<u>\$77,004</u>	<u>\$78,585</u>
As a percent of average loans (1):			
Net charge-offs (annualized).....	7.00%	4.98%	5.19%
Provision for loan losses (annualized).....	3.89%	5.43%	4.07%
Allowance for loan losses.....	3.16%	3.81%	3.01%
Allowance for loan losses to:			
Total loans, net of unearned income at period end	3.22%	3.95%	3.08%
Total non-performing loans at period end.....	305.057%	138.71%	226.03%

(1) Includes nonaccruing loans.

Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that is management's best estimate of known and inherent losses. The Board of Directors periodically reviews the status of all non-accrual and impaired loans and loans classified by regulators or the internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. The Board of Directors also considers specific loans, pools of similar loans, historical charge-off activity, economic conditions and other relevant factors in reviewing the adequacy of the loan loss reserve. Any additions deemed necessary to the allowance for loan losses are charged to operating expenses. We have an existing loan review program, which monitors the loan portfolio on an ongoing basis.

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In our opinion, the allowance for loan losses was appropriate at March 31, 2009. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

In the first quarter of 2009, the bank charged off \$363,000 on two loans to one borrower which were secured by land and improvements for new condominium construction in Lewes, Delaware. The remainder of this loan was transferred to other real estate owned. It is not feasible to determine in which loan category future charge-offs and recoveries may occur. The entire allowance for loan losses is available to absorb loan losses in any loan category. The majority of the loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. FBD attempts to evaluate larger loans individually, on the basis of its loan review process, which scrutinizes loans on a selective basis, and other available information. Even if all commercial purpose loans could be reviewed, there is no assurance that information on potential problems would be available. The portfolio of consumer loans is evaluated in groups. At March 31, 2009, loans classified as commercial and construction, and subprime consumer purposes respectively, amounted to \$66.0 million and \$7.2 million (at that date there were \$961,000 of subprime credit card receivables and \$6.2 million of subprime consumer installment loans).

### **Effects of Inflation**

The majority of assets and liabilities of a financial institution are monetary in nature. Therefore, a financial institution differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Management believes that the most significant impact of inflation on financial results is the need and ability to react to changes in interest rates. As discussed previously, management attempts to maintain a relatively balanced position between rate sensitive assets and liabilities over a one year time horizon in order to protect net interest income from being affected by excessive interest rate fluctuations.

### **ITEM 3: CONTROLS AND PROCEDURES**

#### (a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, with the assistance of management, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (the "Evaluation Date"). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

#### (b) Changes in internal controls.

There has not been any change in our internal control over financial reporting during our quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

## **ITEM 1: LEGAL PROCEEDINGS**

### **Illinois Action**

On January 15, 2009, the Illinois Department of Financial & Professional Regulation, Division of Financial Institutions (the "Division"), without any prior contact from the Division to FBD, issued a cease and desist order against FBD demanding that FBD cease acting as a lender in Illinois. The conduct that gave rise to the Division's enforcement action, FBD's use of a third party in the marketing of FBD's product, was discontinued on November 30, 2008, before the Division issued its order. FBD has been advised by counsel that the Illinois law that served as the basis of the Division's action is likely inapplicable to FBD, and that the Division appears to have recently changed its position with regard to the application of the underlying state law to out-of-state state-chartered banks. FBD believes that the Division's action is without merit and is vigorously contesting the action, including possibly filing a complaint for declaratory and injunctive relief against the Division with respect to the application of the state law to FBD.

### **Check 'N Go Litigation**

On April 26, 2007, the San Francisco City Attorney filed a complaint in the name of the People of the State of California in the Superior Court of the State of California, County of San Francisco, against First Bank of Delaware, Monetary Management of California, Inc. and Money Mart Express, Inc., and Check 'N Go of California, Inc. and its affiliated companies.

The Complaint alleges that the defendants engaged in unlawful, unfair and deceptive business practices in violation of California Business and Professions Code section 17200. Specifically, the complaint alleges that the Check 'N Go and Money Mart defendants engaged in such unlawful and deceptive business practices by either themselves making installment loans under the guise of marketing and servicing for FBD or by brokering installment loans made by FBD in California in violation of the prohibition on usury contained in the California Constitution and the California Finance Lenders Law, as well as other violations of the California Finance Lenders Law and the California Deferred Deposit Transaction Law. The complaint alleges that FBD aided and abetted these claimed violations. The complaint seeks broad injunctive relief as well as civil penalties. Defendants have denied the allegations of the complaint. Discovery is proceeding and no trial date has been set.

On January 5, 2009, the San Francisco City Attorney filed a First Amended Complaint, which, among other things, added a claim that short-term deferred deposit loans made by FBD that were marketed and serviced by the Money Mart defendants, violated the California Deferred Deposit Transaction law and that FBD aided and abetted this violation. Both FBD and the Money Mart Defendants filed a Motion to Dismiss this claim. The Court denied both Motions to Dismiss on February 25, 2009.

At this time, it is too early to determine the likelihood of an unfavorable outcome or the ultimate liability, if any, resulting from this case. Our defense costs are being paid by other defendants pursuant to contractual indemnification agreements, and we expect that any liability resulting from this case will be paid by the other defendants pursuant to the same indemnification agreements.

### **Other Legal Proceedings**

From time to time we may be party to lawsuits that occur in the ordinary course of business. While any litigation involves an element of uncertainty, our management is of the opinion that our liability, if any, resulting from any of these pending actions will not have a material effect on our financial condition or results of operations. However, should we be successfully sued, our results of operations and financial condition could be adversely affected.

**ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5: OTHER INFORMATION**

None

## **ITEM 6: EXHIBITS**

The following Exhibits are filed as part of this report. (Exhibit numbers correspond to the exhibits required by Item 601 of Regulation S-K)

### **Exhibit No.**

- |      |  |
|------|--|
| 31.1 | Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act |
| 31.2 | Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act |
| 32.1 | Certification of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act |
| 32.2 | Certification of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act |

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Bank of Delaware

Alonzo J. Primus  
President and  
Chief Executive Officer

Paul Frenkiel  
Executive Vice President and  
Chief Financial Officer

Dated: May 14, 2009

## CERTIFICATION

I, Alonzo J. Primus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Bank of Delaware (the "company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 14, 2009

\_\_\_\_\_  
President and Chief Executive Officer

CERTIFICATION

I, Paul Frenkiel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Bank of Delaware (the "company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 14, 2009

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Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, as filed with the Federal Deposit Insurance Corporation by First Bank of Delaware ("FBD") on the date hereof (the "Report"), I, Alonzo J. Primus, Chief Executive Officer of FBD, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the FBD.

Date: May 14, 2009

By: \_\_\_\_\_  
Alonzo J. Primus  
President and  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, as filed with the Federal Deposit Insurance Corporation by First Bank of Delaware ("FBD") on the date hereof (the "Report"), I, Paul Frenkiel, Chief Financial Officer of FBD, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of FBD.

Date: May 14, 2009

By: \_\_\_\_\_  
Paul Frenkiel,  
Executive Vice President and  
Chief Financial Officer