

PUBLIC DISCLOSURE

January 27, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank - Northern Virginia

05512656

P. O. Box 1087

Fairfax, Virginia 22030

Federal Reserve Bank of Richmond

P. O. Box 27622

Richmond, Virginia 23261

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each Federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of F & M Bank - Northern Virginia prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of January 27, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's loan-to-deposit ratio appears reasonable in relation to demand for credit in the assessment area. A substantial majority of loans sampled during the examination were extended to borrowers residing within the local community. The level of lending to low- and moderate-income borrowers meets standards for satisfactory performance. Furthermore, the penetration of loans throughout low-, moderate-, middle-, and upper-income geographies appears reasonable in relation to area demographics.

The following table indicates the performance level of F & M Bank - Northern Virginia with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>F & M Bank - Northern Virginia</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the prior examination.		

DESCRIPTION OF INSTITUTION

F & M Bank - Northern Virginia was formed on August 9, 1996, as a result of the merger of F & M Bank - Hallmark, F & M Bank - Potomac, and Fairfax Bank and Trust Company.

F & M Bank - Northern Virginia operates 18 offices serving four counties and four cities in northern Virginia. As of September 30, 1996, the bank had total assets of \$439 million, of which 64% were loans. The institution offers a variety of credit and deposit products including loans for small business, consumer, and residential mortgage purposes. The loan portfolio as of September 30, 1996, was comprised of the following: 75% real estate secured (consumer and business), 20% commercial, and 5% consumer. Based on the number of loans extended during the previous 12 months, residential mortgage and business loans were identified as primary credit products. The institutions' previous CRA ratings were satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The assessment area encompasses Fairfax, Prince William, Arlington, and Loudoun Counties and the Cities of Fairfax, Manassas, Falls Church, and Alexandria. This assessment area is located within the Washington, D. C., Metropolitan Statistical Area (MSA). Three-hundred and seventy-four census tracts are included in the bank's assessment area, of which 63 are low-income, 37 are moderate-income, 159 are middle-income, and 115 are upper-income. Only two of the low-income census tracts, however, are populated. The assessment area has a population of approximately 1.5 million. The local economy is diverse and affords employment opportunities with the Federal Government, military, light manufacturing, finance, insurance, and retail-related businesses. As of November, the unemployment rates for the counties and cities within the assessment area ranged from a high of 3.5% in Falls Church to a low of 2.1% in the City of Fairfax. The jobless rate for the Commonwealth of Virginia is 3.8%. Because of the density of population and the relatively high median-family income within the assessment area, the cost of housing is high. As a result, home ownership is difficult for many low- and moderate-income individuals to achieve. The 1996 median family income for the Washington, D. C., MSA is \$68,300.

A community contact was recently performed with representatives from two nonprofit housing development organizations to further assist in evaluating the bank's CRA performance. The contacts indicated that affordable housing initiatives could be well served by increased availability of multi-family housing loans, preferably through loan pool participation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The loan-to-deposit ratio as of September 30, 1996, was 78% and is considered reasonable given the bank's financial capacity, size, and current local economic conditions. The bank's level of lending appears responsive to loan demand in the assessment area. The average loan-to-deposit for banks headquartered in metropolitan areas of Virginia and of similar-size to F & M Bank - Northern Virginia is 87%.

LENDING IN ASSESSMENT AREA

A review of 133 loans was conducted to determine the volume of lending within the bank's assessment area. The sample included 74 business loans and 59 mortgage loans. As illustrated by the table below, a substantial majority of the number and dollar amounts of the sampled loans have been provided to borrowers residing within the assessment area.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	117	16	133
Percentage of Total Loans	88%	12%	100%
Total Amount of Loans (000s)	\$17,681	\$1,283	\$18,964
Percentage of Total Amount	93%	7%	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The following charts illustrate the distribution of sampled business and mortgage loans extended within the assessment area by the income level of the borrower and to businesses of different sizes.

Distribution of Loans by Size of Business

	Revenues \leq \$1 Million	Revenues $>$ \$1 Million	Total
Total Number of Loans	37	12	49
Percentage of Total Loans	76%	24%	100%
Total Amount of Loans	\$2,544	\$2,023	\$4,567
Percentage of Total Amount	56%	44%	100%

The number and amount of loans provided to businesses with gross revenues of \$1 million or less demonstrate the bank's responsiveness to small business credit needs. Fourteen of the loans were analyzed according to borrower income as sufficient business revenue information was not available. As illustrated in the chart below, 7% of these loans were extended to low-income borrowers.

Distribution of Loans by Income Level of Borrower

Business Loans

	Low-Income	Moderate-income	Middle - and Upper-income	Total
Total Number of Loans	1	0	13	14
Percentage of Total Loans	7%	0	93%	100%
Total Amount of Loans	\$124	0	\$1,402	\$1,526
Percentage of Total Loans	8%	0	92%	100%

Distribution of Loans by Income Level of Borrower

Mortgage Loans

	Low-Income	Moderate- Income	Middle- Income	Upper-Income	Total
Total Number of Loans	3	9	14	28	54
Percentage of Total Loans	6%	17%	26%	51%	100%
Total Amount of Loans	\$184	\$1,258	\$2,644	\$7,501	\$11,587
Percentage of Total Loans	2%	11%	23%	64%	100%

The volume of mortgage loans extended to low- and moderate-income residents (23%) is lower than the representation of such families in the assessment area (12% low-income and 16% moderate-income). However, the high cost of housing in the area has made it difficult for many low- and moderate-income individuals to purchase homes in the community. Based on the 1990 census data for the assessment area, the median value for housing is \$196,440 while the median-family income is \$60,446. In comparison, the median-family income for the entire MSA is \$52,807. Middle- and upper-income families comprise 25% and 47% of the assessment area, respectively.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among various census tracts within the institution's assessment area. The following charts depict the distribution of the sampled mortgage and business loans according to the income level of census tract.

Distribution of Loans in Assessment Area by Income Level of Census Tract

Business Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	5	28	30	63
Percentage of Total Loans	0	8%	44%	48%	100%
Total Amount of Loans	0	\$363	\$2,570	\$3,159	\$6,092
Percentage of Total Loans	0	6%	42%	52%	100%

Mortgage Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	2	20	32	54
Percentage of Total Loans	0	4%	37%	59%	100%
Total Amount of Loans	0	\$298	\$3,683	\$7,606	\$11,587
Percentage of Total Loans	0	3%	32%	65%	100%

The geographic distribution of lending for both loan types is considered reasonable given the local population residing in geographies of various income levels. The percentage of loans made in moderate-income census tracts for both business (8%) and mortgage (4%) loans is less than the percentage of the population (12%) residing within these areas. Although no loans have been extended in low-income census tracts, only .2% of the market population reside in these areas. The percentage of population residing in middle- and upper-income geographies is 52% and 36%, respectively.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Technical violations of the Equal Credit Opportunity Act's Regulation B and the Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.

Regression Program Usage Report

(This form should be filled out for each examination conducted involving a HMDA reporter.)

Institution Name: F & M Bank - Northern Virginia*

City, ST: Fairfax, Virginia

Exam Date: 1-27-97

Number of HMDA LAR records: 240

Year(s) of data considered: 1995

	FHA, VA, & FmHA HOME Purchase		Conventional Home Purchase		Refinancings		Home Improvement	
	1995	Year	1995	Year	1995	Year	1995	Year
White Approvals	9		79		49		36	
White Denials	1		4		9		4	
Minority Approvals	1		4		4		0	
Minority Denials	1		1		0		1	

Was Step 1 of regression program run? N

If "N", why not? Insufficient number of minority denials

* Includes F & M Bank - Hallmark, F & M Bank - Potomac, and Fairfax Bank And Trust Company - Merged on 8/9/96

What grouping(s) of data (i.e, loan type, location, year(s), etc.) were used?

MIN Pr > Chi Square Value

- (1) _____
- (2) _____
- (3) _____
- (4) _____
- (5) _____
- (6) _____

- _____
- _____
- _____
- _____
- _____
- _____

Results from Regression Step 2

(Fill this page out for each grouping on which step 2 was run.)

Standard Variables which were not needed for Step 2:

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Judgmental Variables which were collected for Step 2:

_____	Cash Available for Closing	_____	Special Loan Program
_____	Refi from Same Lender	_____	Cash Out vs No Cash Out
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Value of MIN Pr > Chi-Square: _____

Number of Minority Rejections: _____

Number of "Dominant Pairs": _____

Explain which files pair analysis used: _____

What additional factors explained away pairs? _____

Were pairs of loan files given to bank for explanation? Y N

Examiner hours spent specifically on regression: _____