

PUBLIC DISCLOSURE
October 30, 2000
COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank-Northern Virginia
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Federal Reserve Bank of Richmond
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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal financial supervisory agency concerning the safety and soundness of this financial institution.

Definitions

The following terms are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Assessment Area - A delineated community including the geographies in which the bank has its main office, branches, and deposit-taking Automated Teller Machines (ATMs). As well as, the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans, including home mortgage loans, small-business and small-farm loans, and any other loans on which the bank chooses to have its performance assessed.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract - Small, locally defined areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A census tract has defined boundaries per ten year census and an average population of 4,000.

Community Development - Initiatives in the form of loans, investments, or services which provide for the following:

Affordable housing for low- or moderate-income individuals;

Community services targeted to low- or moderate-income individuals;

Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or

Activities that revitalize or stabilize low- or moderate-income geographies.

Community development activities generally cannot be double counted, for example, loans required for reporting as small business, small farm, or home mortgage (except for multifamily housing) cannot also be reported as community development loans.

Community Reinvestment Act (CRA) - The statute requiring the federal financial supervisory agencies to assess an institution's record of helping to meet the credit needs of the local communities in which the institution is chartered, consistent with the safe and sound operation of the institution, and to take this record into account in the agency's evaluation of an application for a deposit facility by the institution.

Geography - A census tract or a block numbering area as delineated by the United States Census Bureau.

Home Mortgage Disclosure Act (HMDA) - The statute that requires most mortgage lenders who have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

Income Level includes:

Low-Income - Income levels that are less than 50% of the median family income.

Moderate-Income - Income levels that are at least 50% and less than 80% of the median family income.

Middle-Income - Income levels that are at least 80% and less than 120% of the median family income.

Upper-Income - Income levels that are 120% or more of the median family income.

Median Family Income - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction. Two or more MSAs having a population of one million or more residents may be recognized as a **consolidated metropolitan statistical area (CMSA)** if the individual MSAs demonstrate strong internal, social, and economic ties within the entire area. The individual MSAs included in a CMSA are then referred to as **primary metropolitan statistical areas (PMSA)**.

Small Business Loans - Loans with original amounts of \$1 million or less that are secured by nonfarm nonresidential properties or commercial and industrial loans to U. S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are secured by farmland or to finance agricultural production and other loans to farmers.

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The following table indicates the performance level of F & M Bank-Northern Virginia with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	<u>F & M Bank-Northern Virginia</u>		
	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The bank primarily serves its assessment area through direct lending and offers a variety of credit products. A majority of the institution's loans were extended in the bank's assessment area. Furthermore, the geographic distribution of loans and lending to borrowers of varying incomes and to businesses of different sizes is generally considered reasonable. Participation in qualified community development investments is also considered adequate. Delivery systems and branch locations are considered readily accessible to all segments of the assessment area. The institution also provides its services through various means to meet the needs of local residents. The bank has not received any complaints regarding its CRA performance since the previous evaluation.

DESCRIPTION OF INSTITUTION:

F & M Bank-Northern Virginia (FMNV) is headquartered in Fairfax, Virginia, and currently operates 31 full-service branches in Northern Virginia. The institution is a subsidiary of F & M National Corporation, a multi-bank holding company located in Winchester, Virginia. Through F & M National Corporation's ownership, FMNV is affiliated with nine regional banks and a group of other nonbank affiliates, which are owned by F & M Bank-Winchester. FMNV does not operate any subsidiary entities. Since the prior examination dated November 30, 1998, FMNV acquired two branch offices through the merger of Security Bank Corporation (March 23, 1999) and opened three new offices within its existing assessment area.

As of September 30, 2000, the bank's assets totaled \$835.7 billion of which 57.1% were loans and 34.0% were securities. The loan portfolio as of this date consisted of 30.8% residential real estate secured, 39.8% other real estate (including farmland and nonresidential property), 14.7% commercial and agricultural, 8.6% construction and land development, 5.8% consumer, and 0.3%

other. Since the previous examination, loans, assets and deposits have increased by 26.9%, 19.1% and 13.3%, respectively. The institution's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

The bank primarily serves its assessment area through direct lending and the institution offers a broad variety of credit products. During the eight-quarter period ending September 30, 2000, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Virginia and of similar asset size to FMNV ranged from 73.2% to 79.7%. FMNV's loan-to-deposit ratio averaged 66.5% (ranging from 62.5% to 70.0%) during the eight-quarter period ending September 30, 2000.

As identified in the institution's CRA Public File, a full range of credit products is offered including commercial, small business, residential mortgage, home improvement, and various consumer loans.

Lending Activity

The following chart summarizes the bank's lending activity since January 1, 1999 through September 15, 2000, by number, dollar amount, and percentage for the types of credit listed. FMNV does not actively purchase loans except for a limited volume of indirect consumer loans; accordingly, all of the data in the following table reflect direct loan originations except for the consumer loan category. The consumer loan category includes home equity loans and lines of credit, motor vehicle loans, consumer secured loans, and consumer unsecured loans.

Purpose	Number	Percentage	Dollars (000's)	Percentage
Small Business*	845	22.2%	\$79,499	42.4%
Small Farm*	0	0.0%	\$0	0.0%
Home Purchase**	260	6.9%	\$50,902	27.2%
Refinance**	66	1.7%	\$12,953	6.9%
Home Improvement**	39	1.0%	\$794	0.4%
Multifamily/Nonoccupant**	0	0.0%	\$0	0.0%
Consumer	2,592	68.2%	\$43,241	23.1%
Total	3,802	100.0%	\$187,389	100.0%

The asterisks indicate loan types that are subject to data collection by the institution in accordance with Regulations BB (*) and C (**).

In an effort to meet the needs of its local communities, the bank offers certain Government subsidized loan programs. Although data on these loans are included in the preceding table, the utilization of these programs demonstrates the bank's flexibility and desire to meet the needs of its community. The bank's real estate lending department actively utilizes Federal Housing Administration (FHA) and Veterans Administration (VA) mortgage loan programs. Since January 1, 1999 through September 15, 2000, FMNV funded 111 such loans totaling \$13.7 million. During the same time period, the commercial department extended one SBA loan totaling \$200,000.

Assessment Area Concentration

The following table compares the institution's volume of lending inside its market area versus outside. The data include all small business, small farm, HMDA, and consumer loans originated by the bank from January 1, 1999, through September 15, 2000.

Comparison of Credit Extended Inside and Outside of Assessment Areas

	IN				OUT			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Small Business	772	20.3%	\$74,672	39.8%	73	1.9%	\$4,827	2.6%
Small Farm	0	0.0%	\$0	0.0%	0	0.0%	\$0	0.0%
HMDA	272	7.2%	\$44,167	23.6%	93	2.4%	\$20,482	10.9%
Consumer	2,205	58.0%	\$39,574	21.1%	387	10.2%	\$3,667	2.0%
Totals	3,249	85.5%	\$158,413	84.5%	553	14.5%	\$28,976	15.5%

A substantial majority of the number and dollar amounts (85.5% and 84.5%, respectively) of the loans have been provided to area residents and businesses. As indicated by the table, the institution has not extended any small farm loans. The lack of small farm lending within the market is not uncommon, as there are few farms or businesses supporting agricultural production in the area. During 1999, of all financial institutions subject to reporting data on small farm lending, only 37 such loan extensions were reported. Overall, the level of lending in the bank's market area is considered responsive to community credit needs.

The geographic distribution of loans and the distribution of loans by borrower income and business revenues are discussed in detail later in this evaluation. The bank's penetration of small business, HMDA, and consumer loans into low- and moderate-income areas and to low- and moderate-income borrowers and to businesses with revenues of \$1 million or less was generally consistent with the various proxies used to estimate loan demand.

Community Development Loans

To the extent that the bank may have originated any loans for community development purposes in the assessment area, such credit

extensions have been reported as small business or HMDA loans and cannot also be counted as community development loans.

Overall, the institution's lending activities are reasonable and rated high satisfactory under the lending test.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated low satisfactory. As of the examination date, total funded qualified investments equaled \$494,796. The bank has also committed to fund an additional \$90,906 in qualified investments at a future date. The overall securities portfolio as of September 30, 2000 totaled \$284.3 million. Other qualified investments consist of donations and/or grants to local charitable organizations whose operations benefit primarily low- and moderate-income families or areas and microenterprise development.

SERVICE TEST

The overall rating under the service test is high satisfactory. Delivery systems, including automated teller machines (ATMs) and branch locations, are considered readily accessible, and the hours of operation are convenient to all portions of the assessment areas. A branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991.

Additional details pertaining to the bank's performance under the lending test, investment test, and service test are provided later in this report.

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 Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

METROPOLITAN ASSESSMENT AREA

DESCRIPTION OF INSTITUTION'S OPERATIONS IN WASHINGTON, DC-MD-VA-WV PMSA:

The bank's assessment area is located in the northern Virginia portion of the Washington, DC-MD-VA-WV PMSA. Specifically, the delineated market area contains all of the following counties and cities located in the Commonwealth of Virginia.

County/City	Name
Counties	Arlington
	Fairfax
	Loudoun
	Prince William
Cities	Alexandria
	Fairfax *
	Falls Church *
	Manassas *
	Manassas Park *

* Indicate small cities (population of 30,000 or less) per 1990 census data.

Thirty-one offices serve the market area, which, according to 1990 census data, has a population of 1,466,409. The 1990 median housing value in the assessment area equals \$195,963 and is substantially higher than PSMA's median housing value of \$160,046. The 1990 median family income of the local area (\$60,298) is also substantially higher than that of the PMSA (\$52,807). At 2.6%, the market area's poverty rate is almost half that of the PMSA (4.4%). The level of home ownership within the market (60.1%) is somewhat higher than the level of home ownership in the PMSA (57.3%) despite the higher cost. The 1999 and 2000 median family incomes for the PMSA equal \$78,900 and \$82,800, respectively.

The following table provides demographic data for the assessment area by the income level of families and the percentage of population living in census tracts of varying income levels. The table also displays the distribution of owner-occupied housing and area poverty rates by income level of census tract.

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	12.0%	15.9%	25.4%	46.7%	100.0%
Percentage of Population by Census Tract Income Level	0.2%	12.4%	51.3%	36.1	100.0%
Percentage of Owner-Occupied Housing Units by	<0.1%	6.9%	50.8%	42.3%	100.0%

Census Tract Income Level					
Number of Census Tracts by Income Level	63*	39	159	115	376
Percentage of Families Below Poverty by Income Level of Census Tracts	10.1%	7.3%	2.7%	1.1%	N/A

* Of the 63 low-income census tracts, 61 were unpopulated as of the 1990 census and offer only limited lending opportunities.

This region relies heavily on the Federal Government, various military installations, as well as service, trade, light industrial, and tourism industries for employment and business opportunities. The market is home to a number of computer technology and communication related industries. Recent unemployment rates (August 2000) for the counties included within this market area and the Commonwealth of Virginia are noted in the following table.

County/City	Unemployment Rate
Alexandria	1.7%
Arlington	1.3%
Fairfax City	0.8%
Fairfax County	1.4%
Falls Church	1.5%
Loudoun	1.2%
Manassas	1.3%
Manassas Park	1.1%
Prince William	1.9%
Commonwealth of Virginia	2.6%

Benefiting from a strong local economy, the Washington, DC-MD-VA-WV PMSA is generally considered one of the more prosperous areas in the country, and the bank's assessment area includes some of the PMSA's more affluent communities.

Numerous community contacts were recently made to further assist in evaluating the bank's CRA performance in this assessment area. The contacts each indicated that area financial institutions appear to be reasonably meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN WASHINGTON, DC-MD-VA-WV PMSA:

LENDING TEST

The following tables represent the geographic distribution and distribution by borrower revenue and income of the small business, HMDA, and consumer loans extended in the bank's assessment area since January 1, 1999 through September 15, 2000. Area demographic data, Dunn & Bradstreet (D&B) business data, and market aggregate data are used as proxies for demand when evaluating the bank's penetration into geographies of different income levels. HMDA and CRA aggregated data include FMNV and all reporting institutions that originated small business and residential real estate loans within the bank's market during calendar year 1999. Aggregated consumer loan data is not available, as financial institutions are not required to collect or report such data.

Distribution of Small Business Loans by Income Level of Geography

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	1	62	390	319	772
Percentage of Total Loans	0.1%	8.0%	50.5%	41.4%	100.0%
Total Amount of Loans (000's)	\$10	\$4,164	\$34,373	\$36,125	\$74,672
Percentage of Total Amount	<0.1%	5.6%	46.0%	48.4%	100.0%

According to 1999 aggregate small business data, of all lenders required to report data in this market 0.1% of loans were extended to businesses located in low-income areas and 9.2% were extended to businesses in moderate-income areas. As indicated in the preceding chart, FMNV's volume of lending in low- and moderate-income areas (0.1% and 8.0%, respectively) is consistent with the aggregate data.

Distribution of HMDA Loans by Income Level of Geography

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	21	146	105	272
Percentage of Total Loans	0.0%	7.7%	53.7%	38.6%	100.0%

Total Amount of Loans (000's)	\$0	\$2,475	\$18,966	\$22,726	\$44,167
Percentage of Total Amount	0.0%	5.6%	42.9%	51.5%	100.0%

The bank's level of lending in low- and moderate-income areas is analogous to the 1999 aggregate HMDA data. Of all lenders reporting HMDA loans in this market, approximately <0.1% of the loans were to residents of low-income areas, and 7.0% were to residents of the moderate-income areas.

Distribution of Consumer Loans by Income Level of Geography

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	2	186	1,153	864	2,205
Percentage of Total Loans	<0.1%	8.5%	52.3%	39.2%	100.0%
Total Amount of Loans (000's)	\$11	\$1,524	\$16,927	\$21,112	\$39,574
Percentage of Total Amount	<0.1%	3.9%	42.8%	53.3%	100.0%

As noted previously, within the market's demographic description, 0.2% of the local residents reside in low-income areas and 12.4% reside in moderate-income areas. The bank's level of penetration into low- and moderate-income areas for consumer loans (approximately 8.5%) is lower than the population residing in such areas. However, within the market, 10.1% of the low-income area families and 7.3% of the moderate-income area families are below the poverty level. These concentrations of impoverished residents most likely reduce the overall demand for credit from many residents of these census tracts. The bank's level of consumer lending in low- and moderate-income areas is reasonable considering the population percentages in conjunction with the poverty rates for such areas.

Borrower Profile

The bank collected and reported revenue data on all of the small loans to businesses noted in the following table.

Distribution of Lending by Loan Amount and Size of Business

	\$0 - \$100,000		>\$100,000 to \$250,000		> \$250,000		Total	
Total Revenues ≤ \$1 Million	443	57.4%	71	9.2%	59	7.6%	573	74.2%
Total Revenues > \$1 Million	156	20.2%	28	3.6%	15	2.0%	199	25.8%
Totals	599	77.6%	99	12.8%	74	9.6%	772	100.0%

As illustrated in the preceding table, 74.2% of the 772 small business loans were provided to businesses with revenues of \$1 million or less. In contrast, the June 1999 D&B data revealed that approximately 82.5% of all assessment area businesses (including farms) generated revenues less than \$1 million. Approximately 26.8% of these entities, however, have been under current ownership for less than five years. Businesses with relatively new ownership may be less likely to qualify for credit than more seasoned businesses. Utilizing the D&B information as an estimate of potential demand, this level of small business lending is considered reasonable.

Distribution of HMDA Loans by Income Level of Borrower

The bank reported a total of 272 HMDA loan originations within the assessment area; however, 13 (4.8%) of the transactions did not contain income data and therefore are not included in the analysis.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of HMDA Loans	43	63	68	85	259
Percentage of Total Loans	16.6%	24.3%	26.3%	32.8%	100%
Total Amount of HMDA Loans (000's)	\$3,455	\$7,500	\$9,959	\$21,385	\$42,299
Percentage of Total Amount	8.2%	17.7%	23.5%	50.6%	100%

In cases where income was known, 16.6% of the HMDA loans extended by the bank were to low-income borrowers and 24.3% were to moderate-income borrowers. This level of lending exceeds the 1999 aggregate HMDA data which indicates that when

income was known 8.9% of all loans by all HMDA reporters were to low-income borrowers and 22.6% were to moderate-income borrowers. The bank’s level of lending to low-and moderate-income borrowers also exceeds the proportion of area families that are considered low-income (12.0%) and moderate-income (15.9%).

Distribution of Consumer Loans by Income Level of Borrower

The bank collected data on a total of 2,205 consumer loan originations within the assessment area, however, 28 (1.3%) of the transactions did not contain income data and therefore are not included in the analysis.

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of HMDA Loans	709	521	453	494	2,177
Percentage of Total Loans	32.6%	23.9%	20.8%	22.7%	100.0%
Total Amount of HMDA Loans (000's)	\$7,202	\$8,031	\$7,749	\$16,016	\$38,998
Percentage of Total Amount	18.5%	20.6%	19.9%	41.0%	100.0%

Of the consumer loans sampled during the examination 56.5% were to low- or moderate-income borrowers. This level of lending exceeds the proportion of area families that are low- (12.0%) and moderate-income (15.9%).

Community Development Loans

Since the previous examination, FMNV has extended numerous loans that facilitate microenterprise development, as well as loans that benefit low- and moderate-income people and areas. These extensions of credit, however, were subject to reporting as small business or HMDA loans and cannot also be reported as community development loans.

The overall level of lending within its assessment area, as evaluated for the geographic distribution, borrower distribution, and level of community development loans is considered reasonable in conjunction with the bank’s market strategy, area demographic data, and aggregate CRA and HMDA data.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated low satisfactory. Currently, the institution maintains a securities portfolio of \$284.3 million, of which \$494,796 represents qualified investments. Also, there is a commitment to fund an additional \$90,906. Specifically, the bank continues to hold the following qualified investments:

A \$180,424 investment in a Virginia Housing Development Authority (VHDA) bond. The VHDA is an independent agency of the Commonwealth that serves as a public mortgage lending institution. The purpose of the authority is to facilitate the housing needs of low- and moderate-income individuals and families.

A \$205,278 investment in a Virginia State Housing Development Authority bond. The Authority promotes affordable housing by financing single-family and multifamily mortgages for low- and moderate-income throughout the Commonwealth, including the bank's assessment area.

An equity investment in the Virginia Community Development Corporation's (VCDC) Housing Equity Fund of Virginia II, L.P. Currently, \$109,094 of the bank's \$200,000 commitment has been funded. The remaining \$90,906 will be funded as and when called for by the VCDC. The VCDC is a private nonprofit corporation whose mission is to provide a source of funds for the promotion, financing, development, and operation of safe and affordable housing throughout the Commonwealth of Virginia.

The institution has also provided several donations and/or grants to numerous organizations that promote business development, affordable housing, and community services. Such organizations include, but are not limited to:

Catholic Charities

Good Shepherd Housing Foundation

Virginia Asset Financing Corporation

Northern Virginia Family Service

Prince William Homeless Shelter

Overall, the institution's level of qualified investments within the assessment area is considered adequate.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. ATMs are available and, through a network, provide customers with 24-hour nationwide access. Additional delivery systems include bank-by-mail services, a 24-hour automated

telephone inquiry system, and extensive on-line services are available via the institution's Internet site.

Branch Locations and Hours of Operation

Branch locations and business hours are considered convenient and meet the needs of the assessment area. FMNV currently operates 31 full-service branches, of which two (6.5%) are located in a moderate-income area. Office hours are reasonable and consistent with other financial institutions in the market. Since the previous examination, three new offices have been opened. One is located in a middle-income census tract and two are located in upper-income census tracts. Additionally, two offices were acquired through FMNV's purchase of Security Bank Corporation on March 23, 1999. Of the acquired offices one is located in a moderate-income census tract and one is located in a middle-income census tract.

Community Development Services

The bank offers free checking accounts to individuals and nonprofit organizations. These accounts benefit all segments of the community including low-and moderate-income individuals.

Overall, the bank's systems for delivering banking services appear effective and available to all portions of the assessment area, including low- and moderate-income areas. The services test rating is high satisfactory.