

F & M Bank-Allegiance, Inc.

05240348

4719 Hampden Lane

Bethesda, Maryland 20814

**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 CRA performance of F & M Bank–Allegiance, Inc., Bethesda, Maryland, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of February 23, 1998. 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 is considered more than reasonable given its financial capacity and demand for credit in the area. A substantial majority of loans sampled during the examination were provided to residents of the assessment area. The institution's lending to low- and moderate-income borrowers and to businesses with revenues of \$1 million or less meets standards for satisfactory performance. The distribution of lending by income level of geographies is also considered reasonable considering the bank's resources, branch locations, and demographics of the local community.

DESCRIPTION OF INSTITUTION

F & M Bank–Allegiance, Inc. operates nine offices in Montgomery and Prince George’s Counties located in eastern Maryland. As of December 31, 1997, the bank had total assets of \$189 million, of which 64% were loans. Management has focused lending efforts on meeting the needs of local businesses. However, various deposit and loan products are available through the institution including business, consumer, home improvement, and residential mortgage loans. The composition of the loan portfolio, as of December 31, 1997, is as follows: 58% real estate secured (consumer and business), 31% commercial, 7% consumer, and 4% other. Based on the number of loans extended during the previous six months, business loans were identified as the principal credit product offered by the bank. Consumer unsecured loans were also considered in the evaluation; however, consumer loans are usually provided as accommodations to existing business customers and their employees. The institution's previous CRA rating (assigned by another regulatory agency) was satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The institution's assessment area includes the majority of Montgomery and Prince George's Counties and is included within the Washington, D. C. Metropolitan Statistical Area (MSA). The following census tracts comprise the bank’s assessment area:

<u>Montgomery County</u>	<u>Prince George’s County</u>
7001.01 through 7003.07	8001.02 through 8006.01
7006.01 through 7060.07	8007.01
	8021.03
	8022.01 through 8023.01
	8024.03 through 8074.07

Of the 283 census tracts included in the assessment area, four are considered low-income, 66 moderate-income, 129 middle-income, and 84 upper-income. According to 1990 census data, the assessment area has a population of approximately 1.2 million. The 1997 median family income for the MSA is \$70,300.

The local economy is diverse and includes a mix of wholesale/retail, service, and technology-based industries. The area also relies heavily on the Federal Government, tourism, and the military for employment opportunities. The University of Maryland, located in College Park, Maryland, is also located in the area and provides jobs to local residents. As of December 1997, the unemployment rates for Montgomery and Prince George’s Counties were 2.3% and 4.5%, respectively. These rates compare favorably to the state’s rate of 4.5%. According to data from the 1990 census, only 3% of assessment area families live below the poverty level compared to 6% of the families within the state.

A representative from a local community development organization was contacted during the examination to further assist in evaluating the bank's CRA performance. The contact indicated that area financial institutions are actively involved in the local community and offer a variety of services that meet the needs of local business owners.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The institution is responsive to area loan demand. During the five-quarter period ending December 1997, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Maryland and of similar asset size to F & M Bank–Allegiance, Inc., ranged from 75% to 76%. The bank's average loan-to-deposit ratio during the previous four quarters is 82%. During this four-quarter period, deposit growth (14%) slightly outpaced loan growth (12%). This level of lending exceeds standards for satisfactory performance given the institution's financial capacity, size, and current local economic conditions.

LENDING IN ASSESSMENT AREA

To determine the institution's volume of lending within the assessment area, a sample of 79 of the 135 business loans and 47 of the 65 consumer unsecured loans extended during the previous six months was reviewed. The lending distribution is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	105	21	126
Percentage of Total Loans	83%	17%	100%
Total Amount of Loans (000's)	\$4,943	\$2,017	\$6,960
Percentage of Total Amount	71%	29%	100%

As illustrated above, a substantial majority of the number and dollar amounts of the sampled loans were provided to residents of the assessment area.

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

The following chart illustrates the distribution of the 65 business loans extended within the assessment area to business of different sizes.

Distribution of Loans by Size of Business

	Revenues \leq \$ 1 Million	Revenues $>$ \$ 1 Million	Total
Total Number of Loans	37	28	65
Percentage of Total Loans	57%	43%	100%
Total Amount of Loans (000's)	\$1,511	\$3,152	\$4,663
Percentage of Total Amount	32%	68%	100%

As indicated on the previous page, 57% of the business loans in the assessment area were provided to businesses with revenues of \$1 million or less. Additionally, 54% (35/65) of the business loans were to borrowers with revenues not exceeding \$1 million and for amounts of \$100,000 or less. Furthermore, bank records indicate that during 1997, 97% (261/269) of all business loans extended by the bank were for amounts less than \$1 million. This level of lending demonstrates the bank's willingness to meet the credit needs of local small businesses.

A review of the 40 consumer unsecured loans extended within the assessment area was conducted to analyze borrower income characteristics. The following chart illustrates the distribution of sampled loans by borrower income level.

Distribution of Loans by Income Level of the Borrower

Consumer Unsecured Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	10	11	10	9	40
Percentage of Total Loans	25%	28%	25%	22%	100%
Total Amount of Loans (000's)	\$58	\$68	\$147	\$168	\$441
Percentage of Total Loans	13%	16%	33%	38%	100%

As a means of comparison, the following chart depicts the distribution of assessment area families according to low-, moderate-, middle-, and upper-income levels.

Percentage of Families in Assessment Area by Income Level

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Families	15%	18%	25%	42%	100%

As indicated in the preceding charts, 53% of the consumer unsecured loans were extended to low- and moderate-income borrowers, while 33% of the assessment area families are either low- or moderate-income. The overall level of lending to small businesses and to families of different income levels is considered reasonable relative to the estimated demand for these types of loans, using area demographics as a proxy.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among census tracts within the institution's assessment area. The following charts depict the geographic distribution of the sampled loans according to income level of the 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	3	18	35	9	65
Percentage of Total Loans	4%	28%	54%	14%	100%
Total Amount of Loans (000's)	\$64	\$1,186	\$2,861	\$391	\$4,502
Percentage of Total Loans	1%	26%	64%	9%	100%

Consumer Unsecured Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	3	22	15	40
Percentage of Total Loans	0%	7%	55%	38%	100%
Total Amount of Loans (000's)	\$0	\$4	\$251	\$186	\$441
Percentage of Total Loans	0%	1%	57%	42%	100%

In the bank's assessment area, 1% of the population resides in the low-income census tracts, 23% in moderate-income tracts, 45% in middle-income tracts, and 31% in upper-income tracts. Of the business loans extended, 32% were to businesses located in low- or moderate-income census tracts. This level of lending compares favorably to the percentage of population (24%) residing in such areas.

The volume of consumer loans extended to residents of low- and moderate-income census tracts (7%) is significantly lower than the percentage of the population residing within such areas. Seven of the nine branch offices are located in Montgomery County. The majority of moderate-income tracts within the bank's assessment area are in Prince George's County (see Appendix A), and of the population in moderate-income tracts, the majority (67%) resides in Prince George's County. Therefore, the geographic distribution of the sampled loans is considered reasonable relative to area demographics, branch locations, and bank resources.

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.