

**PUBLIC DISCLOSURE**

September 8, 2003

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Potomac Bank of Virginia

2705121

9910 Main Street

Fairfax, Virginia 22031

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

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.

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable in relation to demand for credit in the market area.
- A substantial majority of loans sampled during the evaluation were originated to businesses in the bank's assessment area.
- Lending to borrowers of different income levels and to businesses with revenues less than \$1 million is considered reasonable using various proxies for demand.
- Based on the income level of geography, the bank's distribution of small business lending is considered poor and the distribution of home equity lending is considered marginally reasonable given the institution's branch locations, aggregate data, and area demographics.
- The institution has not received any complaints pertaining to its CRA performance since the previous evaluation.

**DESCRIPTION OF INSTITUTION**

Potomac Bank of Virginia is an independent bank headquartered in the City of Fairfax, Virginia, and operates two additional branch offices in Fairfax, Virginia. The bank began operations as a de novo institution on August 17, 1998. As of June 30, 2003, the bank had \$148.5 million in assets, of which 53.7% were loans. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The loan portfolio as of June 30, 2003, was comprised of 16.8% one- to four-family real estate secured, 46.4% commercial real estate and farm, 27.1% commercial, 8.8% consumer, and .9% other. Based on the institution's loan volume during the preceding year and current market strategy, small business and home equity loans were identified as the primary credit products extended by the bank. Potomac Bank of Virginia's previous CRA rating, dated August 23, 1999, was Satisfactory.

**DESCRIPTION OF (Name of ASSESSMENT AREA)**

The bank's assessment area, which is included in the Washington, D. C. metropolitan statistical area (MSA), has been designated as the Cities of Fairfax, Falls Church, Manassas and Manassas Park, Fairfax County, and the following census tracts in Loudoun and Prince William Counties:

<u>Loudoun County</u>		<u>Prince William County</u>	
6105.00	6114.00	9014.04	9017.98
6106.00	6115.00	9014.97	9019.00
6110.00	6116.00	9014.98	9021.95
6111.00	6117.00	9015.01	9021.96
6112.00	6118.00	9015.98	9021.97
6113.00		9016.01	9021.98
		9016.02	9022.98
		9017.02	9023.98

This assessment area contains 255 tracts, of which one is low-income, 18 are moderate-income, 95 are middle-income, and 88 are upper-income. Fifty-three of the tracts are unpopulated and report a median family income of zero. For analytical purposes, these 53 tracts are considered low-income tracts. According to 1990 census data, the assessment area has a population of 988,398 and median housing value of \$220,523. The owner-occupancy rate for the assessment area is 66.5%, which is higher than that for the MSA and the state of Virginia at 57.3% and 60.9%, respectively. The poverty rate for the assessment area is 2.3%, which is significantly lower than that for both the MSA at 4.4% and for the state of Virginia at 7.7%. The 2002 median family income for the MSA is \$91,500.

The following table provides demographics for the assessment area by the income level of families and the percentage of population and owner-occupied housing units in geographies of varying income levels. Poverty rates are also provided. The percentage of commercial entities, as reported by Dun and Bradstreet (D&B) is also provided by income level of the census tract. During 2002, D&B demographic data indicated that 90.4% of assessment area businesses with known revenues reported revenues under \$1 million.

Assessment Area Demographics

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	10.3%	14.5%	25.0%	50.2%	100%
Percentage of Population Residing in Geographies by Income Level of Geography	0.3%	8.9%	47.4%	43.4%	100%
Percentage of Owner-Occupied Housing Units by Income Level of Geography	0.0%	5.7%	45.9%	48.3%	100%
Percentage of Businesses in Geographies by Income Level of Geography	0.3%	7.3%	48.3%	44.1%	100%
Percentage of Families Below Poverty Rate by Income Level of Geography	6.7%	6.6%	2.6%	1.1%	N/A

The local economy is diverse with a mix of wholesale/retail, service, and technology-based industries. The area, however, continues to rely heavily on the Federal government, tourism, and the military for employment opportunities. As of July 2003, unemployment rates for the market area are 1.9% for the City of Fairfax, 2.1% for Falls Church City, 2.8% for Manassas City, 1.9% for Manassas Park City, 2.4% for Fairfax County, 2.7% for Loudoun County, and 3.1% for Prince William County. The jobless rate for the Virginia portion of the MSA is 2.5% and the jobless rate for the Commonwealth is 4.1%.

A local economic development official was contacted to assist in evaluating the bank's CRA performance. The individual indicated that local financial institutions are adequately meeting the credit needs of the community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**LOAN-TO-DEPOSIT RATIO**

During the 16-quarter period ending June 30, 2003, the bank's average loan-to-deposit ratio is 69.1%. The quarterly average loan-to-deposit ratios for all banks headquartered in metropolitan areas of Virginia and of similar asset size to Potomac Bank of Virginia ranged from 75.3% to 79.2% for the same 16-quarter period. Since September 30, 1999, loans, deposits, and assets have increased by 284.1%, 395.7%, and 288.2%, respectively. The bank's growth is typical for relatively recent de novo institutions within the northern Virginia market. Given the institution's size, growth, branch locations, and financial capacity, the bank's loan-to-deposit ratio is considered reasonable.

**LENDING IN ASSESSMENT AREA**

To determine the institution's volume of lending within the assessment area, a sample of 90 small business and 85 home equity loans were reviewed. The sample was selected from 163 small business and 104 home equity loans extended during a recent 12-month period. 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	141	34	175
Percentage of Total Loans	80.6%	19.4%	100%
Total Amount of Loans (000's)	\$18,210	\$5,174	\$23,383
Percentage of Total Amount	77.9%	22.1%	100%

As indicated in the preceding table, a substantial majority of the number (80.6%) and dollar amount of loans (77.9%) were provided to borrowers located in the institution's assessment area. The institution's level of lending within its assessment area is considered highly responsive to community credit needs.

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

The tables that follow present data about the bank's lending to businesses of different sizes and borrowers of different income levels. To evaluate the bank's lending penetration, the sampled business loans (73) and home equity loans (68) originated by the bank during 2002 and extended within the bank's assessment area were analyzed. Area demographics, 2001 small business and Home Mortgage Disclosure Act (HMDA) aggregate data, and D&B information are used as proxies for demand. Aggregate small business lending data includes all reporting institutions that originated such loans within the bank's assessment area during 2001, as required by the CRA. Potomac Bank of Virginia is not subject to CRA reporting requirements; consequently, the bank's small business lending activity is not included within the aggregate information. Discussion of the bank's performance follows each table.

Distribution of Loans by Size of Business

	Revenues ≤ \$ 1 Million	Revenues > \$ 1 Million	Total
Total Number of Loans	48	25	73
Percentage of Total Loans	65.8%	34.2%	100%
Total Amount of Loans (000's)	\$5,602	\$6,356	\$11,958
Percentage of Total Amount	46.8%	53.2%	100%

Based on recent D&B demographic data, 90.4% of local businesses that reported revenue data have annual revenues of \$1 million or less. According to 2001 aggregate small business data, at least 39.5% of all small business loans reported within the market area were to businesses with revenues of \$1 million or less. The remaining loans were extended to businesses having annual revenues in excess of \$1 million or revenue data was not reported. As indicated in the table above, 65.8% of the bank's loans were to entities with revenues of \$1 million or less. The bank's level of small business lending is considered reasonable.

Distribution of Home Equity Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	6	12	9	41	68
Percentage of Total Loans	8.8%	17.7%	13.2%	60.3%	100%
Total Amount of Loans (000's)	\$280	\$979	\$515	\$4,477	\$6,251
Percentage of Total Amount	4.5%	15.7%	8.2%	71.6%	100%

Of the 68 home equity loans originated within the assessment area, 8.8% and 17.7% were extended to low- and moderate-income borrowers, respectively. This level of lending is considered reasonable when compared to the 2001 aggregate HMDA data, which indicated that when income was known, 6.9% of all loans reported by all HMDA reporters were to low-income borrowers and 20.2% were to moderate-income borrowers. The bank's lending is also consistent with the proportion of low-income families (10.3%) and the proportion of moderate-income families (14.5%) within the assessment area.

Overall, the institution's lending distribution to businesses of different sizes and to borrowers of different incomes is considered reasonable when using aggregate and business data, and area demographics as proxies for loan demand.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans within the assessment area is reflected in the following tables. Area demographics, aggregate data, and D&B business information are used as proxies for demand. The geographic distribution of the sampled small business loans and home equity loans originated by Potomac Bank of Virginia within its assessment area is reflected in the following tables. Based on area demographics and aggregate lending data, loan demand for small business and home equity loans appear limited in the assessment area's low-income tracts. Furthermore, 11 of the 18 moderate-income tracts within the bank's assessment area are not located in close proximity to the institution's three branch offices and therefore, may limit the bank's ability to provide lending in these areas.

Distribution of Small Business Loans in Assessment Area  
by Income Level of Geography

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	0	42	31	73
Percentage of Total Loans	0%	0%	57.5%	42.5%	100%
Total Amount of Loans (000's)	\$0	\$0	\$5,769	\$6,189	\$11,958
Percentage of Total Amount	0%	0%	48.2%	51.8%	100%

Of the sampled small business loans, none were extended in low- and moderate-income census tracts. Area demographics indicate that .3% of all small businesses is located in low-income tracts and 7.3% is located in moderate-income tracts. Similarly, 2001 aggregate lending data indicates less than .1% was extended in low-income tracts and 5.9% was extended in moderate-income tracts. While there are limited lending opportunities in the assessment area's low-income census tracts, the bank's lack of lending in moderate-income census tracts is considered poor when compared to the proxies for loan demand in such geographies.

Distribution of Home Equity Loans in Assessment Area  
by Income Level of Geography

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	1	12	55	68
Percentage of Total Loans	0%	1.5%	17.6%	80.9%	100%
Total Amount of Loans (000's)	\$0	\$20	\$847	\$5,384	\$6,251
Percentage of Total Amount	0%	.3%	13.6%	86.1%	100%

While no loans were extended in low-income areas, it is consistent with the percentage of owner-occupied housing units in low-income tracts (0%) and the 2001 aggregate HMDA lending in low-income tracts (<.1%). The level of lending in moderate-income areas (1.5%) is somewhat below the percentage of owner-occupied housing units in moderate-income tracts (5.7%) and the 2001 aggregate HMDA lending in such areas (5.9%). Based on the institution's branch locations to the majority of moderate-income census tracts within the assessment area, the bank's distribution of home equity loans is considered marginally reasonable.

**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. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.