

**PUBLIC DISCLOSURE**

February 1, 1999

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

FCNB Bank  
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Frederick, Maryland 21705

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**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.

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**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 FCNB Bank, Frederick, Maryland, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of February 1, 1999. 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 primarily serves its assessment area through direct lending and offers a variety of credit products. A substantial majority of the institution's loans were extended in the assessment area. Furthermore, the geographic distribution of loans and lending to borrowers of varying incomes and to businesses of different sizes is considered good. Delivery systems and branch locations are considered readily accessible to all segments of the assessment area. The

institution also provides a variety of products and services through various means to meet the needs of local residents. Participation in qualified community development investments, however, has been limited.

The following table indicates the performance level of FCNB Bank with respect to the lending, investment, and service tests.

<b>PERFORMANCE LEVELS</b>	<b><u>FCNB Bank</u></b>		
	<b>PERFORMANCE TESTS</b>		
	<b>LENDING TEST *</b>	<b>INVESTMENT TEST</b>	<b>SERVICE TEST</b>
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	

<b>PERFORMANCE LEVELS</b>	<b><u>FCNB Bank</u></b>		
	<b>PERFORMANCE TESTS</b>		
Substantial Noncompliance			

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

### **DESCRIPTION OF INSTITUTION**

FCNB Bank operates 32 full-service branches within portions of Maryland, Virginia, and Washington, D. C. Specifically, branches are located in Anne Arundel, Baltimore, Carroll, Frederick, Howard, Montgomery, and Prince George's Counties, Maryland; Fairfax County, Virginia; and Washington, D. C. The institution is headquartered in the City of Frederick, Maryland, and is a subsidiary of FCNB Corporation, a one-bank holding company. As of September 30, 1998, the bank had \$1.1 billion in assets of which 56% were loans and 32% were securities. Various credit products are available through the institution including business, consumer, and residential mortgage loans. The loan portfolio as of September 30, 1998, was comprised of 79% real estate secured (including consumer and business), 10% consumer, 10% business/agricultural, and 1% other. Since the previous examination, assets, loans, and deposits have increased by 25%, 13%, and 17%, respectively. The bank's previous CRA rating was satisfactory.

On August 31, 1998, FCNB Bank acquired and incorporated Genesis Mortgage Company into its mortgage lending division. A mortgage office was also opened in Owings Mills, Maryland, as a result of this merger. On June 26, 1998, FCNB Bank purchased seven branch offices from First Virginia Bank – Maryland located in Carroll County, Maryland. FCNB Bank also acquired Capital Bank on November 20, 1998, and incorporated four of its offices into its branch network. These offices are located in Rockville, Maryland (1); Tysons Corner, Virginia (1); and Washington, D. C.(2).

The acquisition of Capital Bank extended FCNB's assessment area into geographies not previously served by the bank. Because the acquisition occurred so recently, management has not had an opportunity to significantly affect any CRA initiatives within these portions of its market. Therefore, CRA performance is evaluated using data pertaining to FCNB Bank prior to the acquisition. The assessment area used for the analysis is comprised of Carroll, Frederick, Howard, and Montgomery Counties, as well as the adjoining portions of Anne Arundel, Baltimore, and Prince George's Counties, Maryland.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

**LENDING TEST**

Lending Activity

The institution primarily serves its market through direct lending and offers a variety of credit products. During a six-quarter period ending September 1998, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Maryland and of similar asset size to FCNB Bank ranged from 81% to 85%. The bank's average loan-to-deposit ratio for a six-quarter period ending September 1998 is 88%. This level of lending is considered responsive to area loan demand given the institution's size, location, and financial capacity.

As identified in the CRA Public file, a full range of credit products is offered including consumer, small business, residential mortgage, home improvement, and commercial loans. The following chart depicts the number and dollar amount of originated loans for the institution during the time period noted.

FCNB BANK LOAN ORIGINATIONS FROM SEPTEMBER 1997 TO SEPTEMBER 1998				
Loan Type	Total Loans	Percentage of Lending	Total Dollar Amount (000's)	Percentage of Lending
REAL ESTATE PURCHASE AND REFINANCE*	624	11%	\$87,972	28%
HOME IMPROVEMENT*	239	4%	\$6,505	2%
RESIDENTIAL CONSTRUCTION	376	6%	\$110,762	35%
R/E SECURED – COMMERCIAL	109	2%	\$43,595	14%
COMMERCIAL/AGRICULTURE	6	<1%	\$293	<1%
INSTALMENT	1,778	30%	\$28,866	9%

INDIRECT INSTALMENT	1,664	28%	\$24,207	8%
SINGLE PAYMENT	82	1%	\$2,116	<1%
HOME EQUITY LINES OF CREDIT	203	4%	\$8,787	3%
CREDIT CARD	216	4%	\$952	<1%
OVERDRAFT PROTECTION	573	10%	\$2,214	1%
TOTAL	5,870	100%	\$316,269	100%

\* These figures reflect lending activity as reported on the bank's 1998 HMDA loan application register.

As illustrated above, the majority of the loans extended were for consumer instalment purposes (58%). The majority of dollar amounts, however, were for consumer real estate purposes (65%). Mortgage loan products include 15-, 20-, and 30-year fixed rate loans; 7/23 balloon reset loans; one-year nonconvertible adjustable rate mortgages (ARMs); one-, three-, and five-year balloon loans; one-year, 3/1, and 5/1 ARMs; construction and construction-permanent loans; and lot loans. The fixed rate mortgage loans, balloon reset loans, and nonconvertible ARM loans are sold to investors, while the bank retains the remainder of the loans within its portfolio. Commercial loan activity comprised less than 3% of total loan volume and approxi-mately 14% of total dollar amounts. The commercial loan activity includes Small Business Administration loans (SBA). Since the previous examination, 40 SBA loans totaling \$8.2 million have been originated.

The institution's volume of HMDA and small business lending from May 6, 1997, to December 31, 1998, is represented in the following table by number and dollar amounts. Additionally, consumer loans sampled during the examination are also included in the chart below. This sample was selected from 2,232 consumer loans extended during 1998. The sample included motor vehicle secured, other secured, other unsecured loans, and home equity lines of credit. Small farm loans were not considered for analysis purposes because the bank has reported only one small farm loan since the previous evaluation.

Comparison of Credit Extended Inside and Outside of Assessment Areas

	Small Business		HMDA*		Consumer		Total	
	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	515	43	1,141	150	472	55	2,128	248
Percentage of Loans	92%	8%	88%	12%	90%	10%	90%	10%
Amount of Loans	\$29,131	\$4,308	\$123,822	\$17,248	\$8,584	\$650	\$161,537	\$22,206

(000's)								
Percentage of Amount	87%	13%	88%	12%	93%	7%	88%	12%

\* The institution is required to collect information about these types of loans.

As depicted above, a substantial majority of the number (90%) and dollar amounts (88%) of the loans have been provided to assessment area residents. Overall, the percentage of loans made in the assessment area is considered highly responsive to community credit needs.

The analysis of small business, HMDA, and consumer loans is discussed in greater detail later in the report. The analysis reveals a reasonable distribution of loans to individuals of varying incomes and to businesses of different sizes. Loan penetration among low-, moderate-, middle-, and upper-income geographies also appears responsive to area credit needs.

### **INVESTMENT TEST**

The institution's level of responding to community development needs through its investment activities is rated needs to improve. Qualified community development investments include an investment with the Carroll County Development Corporation (CCDC) and a small number of donations made to local charitable organizations whose operations primarily serve low- and moderate-income individuals or areas.

### **SERVICE TEST**

The rating of the institution under the service test is high satisfactory. Delivery systems and branch locations are considered readily accessible, and the hours of operation are convenient to all portions of the assessment area. Further, the bank's offerings of community development services are considered innovative and responsive.

### **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 activities.

### **METROPOLITAN AREA**

(if some or all of the assessment areas within the metropolitan area were reviewed using the examination procedures)

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE ASSESSMENT AREA:**

The institution’s assessment area is located in central Maryland and encompasses all of Carroll, Frederick, Howard, and Montgomery Counties, as well as the contiguous portions of Anne Arundel, Prince George’s, and Baltimore Counties. This community is part of the Washington, D. C.- Baltimore Consolidated Metropolitan Statistical Area (CMSA). The assessment area contains 387 census tracts of which 11 (3%) are considered low-income, 39 (10%) are moderate-income, 191 (49%) are middle-income, and 146 (38%) are upper-income geographies. Specifically, the assessment area includes the following census tracts of Anne Arundel, Prince George's and Baltimore Counties:

<u>Prince George’s</u>	<u>Anne Arundel</u>	<u>Baltimore</u>
8001.02 to 8002.08	7021.00	4001.00 to 4049.00
	7301.01 to 7307.00	4083.00 to 4084.00
	7310.01 to 7310.02	4301.01 to 4309.00
	7311.01 to 7311.02	
	7312.01 to 7406.00	
	7408.00 to 7511.01	

According to 1990 census data, the assessment area has a population of approximately two million and a median housing value of \$147,931. The owner-occupancy rate for the market is 66%, which is slightly higher than the rates for the Washington, D. C. MSA (57%), the Baltimore MSA (60%), and the State of Maryland (60%). The 1997 and 1998 median family incomes for the Baltimore and Washington MSAs are \$54,100 and \$55,600, and \$70,300 and \$72,300, respectively. The following table provides demographics for the assessment area by the income level of families and the percentage of population and owner-occupied units within census tracts of varying income levels. Family poverty rates for the different census tracts are also provided.

Demographics for Assessment Area

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	12%	16%	25%	47%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	1%	10%	50%	39%	100%
Percentage of Owner- Occupied Housing Units by	<1%	6%	49%	45%	100%

Income Level of Tract					
Poverty Rates by Income Level of Census Tract	20%	7%	3%	1%	

Central Maryland is a diverse region that ranges from rural to urban. While a large percentage of local residents commute to the Washington, D. C., and Baltimore metropolitan areas for employment, job opportunities are also available through a variety of Government agencies, as well as the construction, manufacturing, retail trade, transportation, utility, education, technology, and agricultural industries. The largest local employer is the National Cancer Institute at Fort Detrick, providing over 4,500 jobs. The table below gives the November 1998 unemployment rates within the assessment area. The jobless rate for the State of Maryland for the month was 4.2%.

County	Unemployment Rate as of November 1998
Anne Arundel	3.2%
Baltimore	4.5%
Carroll	2.5%
Frederick	2.5%
Howard	2.5%
Montgomery	2.2%
Prince George's	4.0%

Based on area demographics and the strength of the local economy, there are no significant negative factors affecting local demand for credit.

Community contacts were made to further assist in evaluating the bank's CRA performance. Although the contacts emphasized the continued need for affordable housing options, they stated that area financial institutions appear to be meeting the credit needs of the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE ASSESSMENT AREA:**

### **LENDING TEST**

#### Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables include small business and HMDA loan data from May 6, 1997, to December 31, 1998. The 1998 consumer loan sample is also depicted. Home equity lines were segregated from the consumer loan sample for analysis purposes.



Distribution of Small Business Loans by Income Level of Census Tract

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	17	85	324	89	515
Percentage of Total Loans	3%	17%	63%	17%	100%
Total Amount of Loans (000's)	\$475	\$4,443	\$19,271	\$4,942	\$29,131
Percentage of Total Amount	2%	15%	66%	17%	100%

The bank's small business loan penetration in low- and moderate- income census tracts is 20%. A review of the 1997 small business aggregate data revealed a 3% penetration of total loan volume in low-income tracts and a 10% penetration in moderate-income tracts. The aggregate data includes FCNB Bank and all reporting institutions that originated small business loans within FCNB Bank's assessment area in 1997.

Distribution of HMDA Loans by Income Level of Census Tract

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	17	128	822	174	1,141
Percentage of Total Loans	2%	11%	72%	15%	100%
Total Amount of Loans (000's)	\$882	\$7,938	\$77,741	\$37,261	\$123,822
Percentage of Total Amount	1%	6%	63%	30%	100%

The distribution of HMDA lending (13%) in low- and moderate-income census tracts exceeds the proportion of owner-occupied units (6%) located within these geographies. The bank's HMDA lending also surpasses the market aggregate. Specifically, the 1997 HMDA aggregate data revealed a <1% penetration of total loan volume in low-income census tracts and a 5% penetration in moderate-income tracts. The aggregate data includes FCNB Bank and all reporting institutions that originated HMDA reportable loans within FCNB Bank's assessment area in 1997.

Distribution of Home Equity Lines by Income Level of Census Tract

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	1	17	94	19	131
Percentage of Total Loans	1%	13%	72%	14%	100%
Total Amount of Loans (000's)	\$25	\$748	\$2,995	\$842	\$4,610
Percentage of Total Amount	1%	16%	65%	18%	100%

The distribution of the sampled home equity lines (14%) in low- and moderate-income census tracts exceeds the proportion of owner-occupied units (6%) and population (1% - low, 10% - moderate) located within these areas.

Distribution of Consumer Loans by Income Level of Census Tract

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	6	63	241	31	341
Percentage of Total Loans	2%	18%	71%	9%	100%
Total Amount of Loans (000's)	\$20	\$595	\$2,938	\$422	\$3,975
Percentage of Total Amount	<1%	15%	74%	11%	100%

Excluding home equity lines, the consumer lending distribution (20%) in low- and moderate-income census tracts exceeds the percentage of the population (11%) residing in these geographies.

The bank's overall loan distribution (small business, HMDA, home equity lines, and consumer) is considered good given the institution's size and location and relative to the effective demand for credit as measured using assessment area demographics and market aggregate information as proxies.

## Borrower's Profile

The following charts illustrate the distribution of small business, HMDA, and sampled consumer loans extended in the assessment area by the income level of the borrower and to businesses of different sizes.

### Distribution of Lending by Loan Amount and Size of Business

	\$0 - \$100,000		>\$100,000 to \$250,000		> \$250,000		Total	
Number Total Revenues < \$1 Million	451	88%	48	9%	15	3%	514	100%
Number Total Revenues ≥ \$1 Million	1	<1%	0	0%	0	0%	1	<1%
Total Numbers	452	88%	48	9%	15	3%	515	100%

As illustrated in the preceding table, all but one of the 515 small business loans was provided to businesses with revenues of \$1 million or less. Furthermore, 88% of the loans were to borrowers with revenues not exceeding \$1 million and in amounts of \$100,000 or less. This level of lending demonstrates a high level of responsiveness in meeting the credit needs of local small businesses.

### Distribution of HMDA Loans by Income Level of Borrower

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Mortgage Loans	163	248	308	381	1,100
Percentage of Total Loans	15%	22%	28%	35%	100%
Total Amount of Mortgage Loans (000's)	\$7,256	\$17,657	\$27,840	\$67,550	\$120,303
Percentage of Total Amount	6%	15%	23%	56%	100%

As depicted above, the percentage of HMDA loans to low- and moderate-income borrowers (37%) exceeds the percentage of such families (28%) in the assessment area. A review of the 1997 HMDA aggregate data indicated that 8% and 21% of all HMDA originations extended within the bank's assessment area were to low- and moderate-income borrowers, respectively.

Distribution of Consumer Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Consumer Loans	131	127	117	90	465
Percentage of Total Loans	28%	27%	25%	20%	100%
Total Amount of Consumer Loans (000's)	\$1,229	\$2,406	\$2,351	\$2,221	\$8,207
Percentage of Total Amount	15%	29%	29%	27%	100%

The volume of consumer loans to low- and moderate-income borrowers (55%) is significantly higher than the proportion of low- and moderate-income families (28%) in the assessment area.

Overall, the institution's lending distribution to businesses of different sizes and to borrowers of different income levels is more than reasonable using aggregate data and area demographics as proxies for demand.

Community Development Loans

The institution has not made any community development loans since the previous examination; however, small business loans for community development purposes have been originated and are included in the previously mentioned small business loan totals.

**INVESTMENT TEST**

Qualified community development investments include a \$25,000 investment in the Carroll County Development Corporation (CCDC). The CCDC is a for-profit corporation striving to stimulate economic development through the financing of small businesses (as defined by the SBA), particularly those that create jobs for low- and moderate-income Carroll County residents. Additionally, a small number of donations to local charitable organizations whose operations primarily serve low- and moderate-income individuals or areas have been provided since the previous examination.

The institution's level of qualified investments is rated needs to improve given the bank's size and the availability of such investment opportunities.

## **SERVICE TEST**

### Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. Automated teller machines (ATMs) are available and, through a network, provide customers with 24-hour nationwide access. Nine (26%) of the bank's 34 ATMs are located in low- and moderate-income census tracts. Bank-by-mail and bank-by-computer services are also offered by the institution for deposit and lending products. In addition, FCNB Bank provides customers with 24-hour telephone access to their accounts.

### Branch Locations and Hours of Operation

Branch locations and business hours are considered convenient and meet the needs of the assessment area. Eight (25%) of the bank's 32 offices are located in low- and moderate-income census tracts. Branch offices are generally open Monday through Friday 9:00 a.m. until 7:00 p.m., with 26 (81%) branches offering Saturday hours. Most offices also have drive-in and walk-up service available when the lobbies are closed. Additionally, both of FCNB Bank's mortgage offices are located in moderate-income census tracts.

### Community Development Services

The bank offers low-cost checking and savings accounts. Service charges are waived on checking accounts for all nonprofit organizations, seniors aged 50 or older, and payroll direct deposit recipients. Basic checking includes a nominal monthly fee and no minimum balance requirements. Additionally, FCNB Bank cashes Government checks for noncustomers at no charge.

FCNB Bank has developed and continues to support the Home Ownership Made Easy (HOME) program sponsored by the Maryland Bankers Association. The HOME program provides home ownership training workshops and seminars throughout Maryland for first-time homebuyers, low- and moderate-income individuals, borrowers with credit deficiencies, and/or residents seeking mortgage-lending education. Topics include personal finance, home ownership preparation, mortgage financing options, the loan application process, understanding credit, settlement, and fair lending and housing rights. FCNB Bank personnel conduct 10 to 15 HOME seminars a year and have produced a videotaped version of a HOME workshop that is available through various sources. FCNB Bank also provides meeting rooms for HOME seminars, Goodwill Industries, United Way, and the Frederick County Alliance of Financial Institutions Reinvesting Through Education (FARE).

The bank's systems for delivering retail-banking services appear effective and available to all portions of the assessment area, including low- and moderate-income areas. Furthermore, a relatively high level of community development services is offered given the size, location, and financial capacity of the institution.