

**PUBLIC DISCLOSURE**  
September 17, 2001  
**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Cardinal Bank-Potomac  
742225  
1313 Dolley Madison Boulevard  
McLean, Virginia 22101

**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.

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The bank's loan-to-deposit ratio is considered reasonable given its financial capacity, location, and demand for credit in the area. A substantial majority of loans reviewed during the examination were provided to businesses and residents of the assessment area. The institution's level of lending to businesses with annual revenues of \$1 million or less and to low- and moderate-income borrowers is considered reasonable. Additionally, the distribution of lending by income level of geography is considered responsive to community credit needs. The institution has not received any complaints involving CRA since the previous examination.

## DESCRIPTION OF INSTITUTION

On September 1, 2000, Heritage Bank was purchased by Cardinal Financial Corporation, a multi-bank holding company located in Fairfax, Virginia, and renamed as Cardinal Bank-Potomac. At the time of the merger, the bank transferred its branch location in Loudoun County to an affiliate institution, Cardinal Bank-Dulles. Cardinal Bank-Potomac is headquartered in McLean, Virginia, and currently operates two offices in Fairfax County. The branch located in Tyson's Corner was opened on May 15, 2000. As of June 30, 2001, the bank reported assets of approximately \$57.9 million, of which 71.5% were loans. The loan portfolio as of June 30, 2001, was comprised of 71.8% real estate secured (including consumer and business), 1.6% consumer, 23.5% commercial, and 3.1% other. Based on the number and dollar amount of loans extended during the previous 12 months, commercial loans were considered the primary credit product for the institution. The bank's previous CRA rating was satisfactory.

## DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Cardinal Bank-Potomac's assessment area consists of the following cities and counties:

<u>Cities</u>	<u>Counties</u>
Alexandria	Arlington
Fairfax	Fairfax
Falls Church	Loudoun
Manassas	Prince William
Manassas Park	

The assessment area is located within the Washington, D. C. Metropolitan Statistical Area (MSA) and contains 376 census tracts, of which 315 are populated. Of the populated geographies, two are low-income, 39 are moderate-income, 159 are middle-income, and 115 are upper-income. According to 1990 census data, the assessment area has a population of 1,466,409 and a median housing value of \$195,963. This housing value is relatively high when compared to the median housing values for the MSA (\$160,046) and the Commonwealth of Virginia (\$90,393). The owner-occupancy rate for the assessment area is 60.1%, which is consistent with that of Virginia (60.9%). The assessment area's overall poverty rate of 2.6% is significantly lower than the 7.7% poverty rate for the Commonwealth. The 2001 median-family income for the Washington, D. C. MSA is \$85,600.

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 family poverty rates by income level of census tract.

### ASSESSMENT AREA DEMOGRAPHICS

	Low- Income	Moderate - Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	12%	15.9%	25.4%	46.7%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	0.2%	12.4%	51.3%	36.1%	100%
Percentage of Owner-Occupied Units by Income Level of Census Tract	0%	6.9%	50.8%	42.3%	100%
Percentage of Businesses Located in Census Tracts by Income Level of Tract	0.2%	9.4%	51.3%	39.1%	100%
Percentage of Families Below Poverty Level by Income Level of Tract	10.1%	7.3%	2.7%	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. The per capita income for this region is among the highest in the nation, as evidenced by the 2001 median family income for the MSA of \$85,600. Unemployment rates for the market area as of June 2001 are listed in the chart below. The current jobless rate for the Commonwealth of Virginia is 3.1%.

## Unemployment Rates

Alexandria City	2.0%	Arlington County	1.7%
Fairfax City	0.6%	Fairfax County	2.0%
Falls Church City	2.1%	Loudoun County	2.5%
Manassas City	2.9%	Prince William County	2.1%
Manassas Park City	1.6%		

A representative from a local trade association was contacted to assist in evaluating the bank's CRA performance. According to the individual, financial institutions are adequately serving the credit needs of the community.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

#### **LOAN-TO-DEPOSIT RATIO**

A bank's loan-to-deposit ratio is one measure of an institution's level of lending relative to its capacity. Cardinal Bank-Potomac's loan-to-deposit ratio for the 16-quarter period ending June 30, 2001, averaged 65.7%. The bank's ratio as of June 30, 2001, was 80.7%. As a means of comparison, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Virginia and of similar asset size to Cardinal Bank-Potomac ranged from 66.2% to 84.6% for the same 16-quarter period. Since September 1997, the bank's assets, loans, and deposits have increased by 30.8%, 79.9%, and 29.4%, respectively. Accordingly, the bank's level of lending is considered reasonable given the institution's size, branch locations, and financial capacity.

#### **LENDING IN ASSESSMENT AREA**

To determine the institution's volume of lending within the assessment area, samples of 55 commercial and 66 consumer loans were reviewed. The samples were selected from 77 commercial and 99 consumer (non-real estate secured and unsecured) loans extended during the previous 12 months. The lending distribution is represented in the table below.

### Comparison of Credit Extended Inside and Outside of Assessment Area

Loan Category	IN				OUT			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Business	49	89.1%	\$20,277	88%	6	10.9%	\$2,756	12%
Consumer	57	86.4%	\$2,898	92.8%	9	13.6%	\$226	7.2%
<b>TOTAL</b>	<b>106</b>	<b>87.6%</b>	<b>\$23,175</b>	<b>88.6%</b>	<b>15</b>	<b>12.4%</b>	<b>\$2,982</b>	<b>11.4%</b>

As illustrated above, a substantial majority of the number (87.6%) and total dollar amount (88.6%) of loans were provided to residents of the assessment area. The institution's level of lending within its assessment area is considered highly responsive to the local community.

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

The following charts illustrate the distribution of the 57 consumer loans and 49 commercial loans extended within the assessment area. Six of the 49 business loans, however, were for amounts greater than \$1 million and are therefore not included in the analysis. Area demographics, Dun and Bradstreet (D&B) business data, and market aggregate information are used as proxies when evaluating the bank's lending distribution.

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

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	11	13	8	25	57
Percentage of Total Loans	19.3%	22.8%	14%	43.9%	100%
Total Amount of Loans (000's)	\$161	\$257	\$262	\$2,218	\$2,898
Percentage of Total Amount	5.6%	8.9%	9%	76.5%	100%

As depicted above, 19.3% of the sampled consumer loans were to low-income borrowers and 22.8% were to moderate-income borrowers. By comparison, 12% and 15.9% of the population is considered to be low- and moderate-income, respectively. The bank's level of consumer lending to low- and moderate-income individuals is considered responsive to area needs.

Distribution of Loans by Size of Business

	Revenues ≤ \$1 Million	Revenues > \$1 Million	Total
Total Number of Loans	30	13	43
Percentage of Total Loans	69.8%	30.2%	100%
Total Amount of Loans(000's)	\$4,116	\$4,856	\$8,972
Percentage of Total Amount	45.9%	54.1%	100%

As illustrated in the chart, 69.8% of the 43 commercial loans were extended to small businesses with revenues of \$1 million or less. Based on June 1999 D&B business data, 86% of businesses located within the assessment area have annual revenues less than \$1 million. Under the CRA, certain banks are required to collect and report data on small business lending. Although Cardinal Bank-Potomac is not required and does not report small business lending, the aggregate small business lending data were reviewed. The 1999 aggregate data indicates at least 57.2% of all reported small business loans were to businesses with annual revenues of \$1 million or less. The remaining loans were to businesses with annual revenues exceeding \$1 million or revenues were not known. The bank's level of business lending is considered reasonable and demonstrates a willingness to meet the credit needs of local small businesses.

Overall, the institution's lending distribution to borrowers of different income levels and businesses of different sizes is considered responsive to community credit needs and compares favorably to the proportion of such families and businesses in the community.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of consumer and commercial loans within the assessment area is reflected in the following tables. Area demographics, D&B business data, and market aggregate information are used as estimates for demand when evaluating the institution's penetration into geographies of different income levels.

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

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	1	17	39	57
Percentage of Total Loans	0%	1.8%	29.8%	68.4%	100%
Total Amount of Loans (000's)	\$0	\$1	\$734	\$2,163	\$2,898
Percentage of Total Amount	0%	0%	25.3%	74.7%	100%

As illustrated, the bank did not originate any consumer loans within low-income census tracts. Of the populated census tracts within the bank's assessment area, however, only two geographies are considered low-income and contain <1% of the area population. The bank's level of consumer lending in moderate-income census tracts (1.8%) is considerably lower than the population residing within such areas (12.4%). The bank's branch locations, however, are not located in close proximity to the majority of low- and moderate-income census tracts. Furthermore, the minimal number of consumer loans within the sample limits the usefulness of the analysis, as the addition or deletion of one loan in any category could substantially change the percentages.

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

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	6	10	33	49
Percentage of Total Loans	0%	12.3%	20.4%	67.3%	100%
Total Amount of Loans (000's)	\$0	\$2,959	\$5,852	\$11,466	\$20,277
Percentage of Total Amount	0%	14.6%	28.9%	56.5%	100%

As noted in the preceding chart, 0% and 12.3% of the commercial loans were extended to businesses within low- and moderate-income tracts, respectively. D&B indicates that within the assessment area .2% of area businesses are located within low-income areas, while 9.4% are located in moderate-income areas. Similarly, the 1999 aggregate small business data reflects that 0% and 9.2% of reported loans were extended to businesses located in low- and moderate-income census tracts, respectively. The bank's level of lending is consistent with market demographics and aggregate lending data

Overall, the institution's geographic distribution of loans is considered reasonable when using the various proxies to estimate demand.

### **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 and credit activities.