

PUBLIC DISCLOSURE

September 16, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank-Emporia

05510910

P. O. Box 995

Emporia, Virginia

**Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261**

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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of F & M Bank-Emporia, Emporia, Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of September 16, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated Satisfactory based on the findings presented below.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Conclusion/Support

Outreach efforts continue to be strong and demonstrate a willingness by the institution to support local community development. Directors and officers maintain significant relationships with regional housing and economic development organizations, trade associations, and civic groups, thereby providing management valuable insight concerning local credit needs. Furthermore, local government officials, businesses, community leaders, and representatives from community organizations are frequently contacted to identify the needs and concerns of the community.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Conclusion/Support

The board of directors has adopted a formal CRA policy and CRA Statement that describe the bank's commitment and efforts to ascertain and serve the credit needs of its local community. In addition, the directorate has established a formal CRA committee consisting of the president, compliance officer, and a board member. This committee meets regularly to discuss CRA related activities, and these efforts are periodically reported to the directorate. Furthermore, an annual self-assessment of the institution's CRA program is conducted by management and presented to the board.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Conclusion/Support

The CRA Statement, approved by the board of directors on September 14, 1995, identifies a full range of credit services including consumer, residential mortgage, home improvement, residential construction, and commercial loans. These types of credit appear responsive to local credit needs and all types have been extended.

Consumer loans continue to comprise a majority of the bank's lending activity. Since April, 1995, 1,010 such credits totaling \$7.5 million have been extended. Included in this total are 197 credit extensions for amounts of \$1,500 or less. These small dollar loans are often considered responsive to the financial needs of low- and moderate-income borrowers.

The institution provides a variety of financing for real estate related purposes. From April 1, 1995 through August 31, 1996, the bank extended 17 home purchase loans totaling \$1 million, four home improvement loans totaling \$66,258, and three residential construction loans totaling \$203,800. Mobile home loans are also offered by the bank. These loans often meet the credit needs of low- and moderate-income residents. Since the previous evaluation, 22 such loans totaling \$291,766 have been extended.

F & M Bank-Emporia, through an established relationship with First National Mortgage Corporation (FNMC), is able to provide long-term fixed-rate mortgage credit. Applications for this type of credit are taken by F & M Bank-Emporia and forwarded to FNMC in Glen Burnie, Maryland. From April 1, 1995 through August, 1996, the bank was able to facilitate the extension of five such loans totaling \$341,800.

While the bank is primarily a consumer lender, loans for various business needs are offered. A total of 399 commercial loans for approximately \$16 million have been extended since the previous evaluation. This activity includes 26 business start-up loans totaling \$3.5 million, 77 expansion loans for \$7.4 million, and 126 working capital loans totaling \$2.3 million. The institution also monitors credit to businesses with annual revenues of less than \$1 million. During 1996, 58 loans to these types of businesses totaling \$3.5 million were funded.

Agricultural loans for a variety of purposes are offered to accommodate the farming industry in the community. Since the previous evaluation, 50 credit extensions for various agricultural needs totaling \$2.3 million have been funded.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Conclusion/Support

The institution offers guaranteed home improvement loans under the Federal Housing Administration's (FHA) Title I loan program. These loans primarily benefit low- and moderate-income residents by providing financing to applicants with little or no equity in their residence. In addition, the bank is an approved Small Business Administration (SBA) lender. No FHA or SBA loans, however, have been made since the previous evaluation. Farmers Home Administration (FmHA) loans are also offered, and four of these loans totaling \$850,060 have been extended since April 1, 1995.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

Conclusion/Support

The local community has been delineated as the City of Emporia, Greensville County, and portions of Southampton, Sussex, and Brunswick Counties, Virginia. This delineation meets the purpose of the regulation and does not exclude any low- and moderate-income neighborhoods.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Conclusion/Support

Although the institution has documented the geographic distribution of its loan portfolio by voting districts within the City of Emporia, no analysis has been performed of the lending activity for the other portions of the delineated community. During the examination, however, management provided geographic information for 988 loans made since the previous evaluation. According to this data, 862 (87%) of these extensions were provided within the delineated community. A review of an additional 52 recent loan applications indicated that 89% of the applications received were from residents of the local community. These reviews revealed a reasonable penetration of lending activity into all segments of the trade area.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Conclusion/Support

The institution operates three offices that are accessible to all segments of the delineated community, and hours of operation are considered convenient. Although no offices have been opened or closed since the previous evaluation, management has developed a formal policy that outlines the procedures for branch closings as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. The policy encompasses all elements considered responsive to the bank's CRA obligations.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Conclusion/Support

Adequate policies and procedures supporting nondiscrimination in all lending and credit activities have been developed. Applications are solicited from all segments of the bank's delineated community, including low- and moderate-income neighborhoods.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Conclusion/Support

A review was made of loan policies, forms, procedures, and 30 accepted and 22 denied loan applications for consumer and business credit; and an interview with a loan officer was performed to determine compliance with the fair housing and fair lending laws and regulations. The institution also performs a second review of all applications for all credit types. No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws were identified. The review demonstrated an equal application of credit standards among all applicants.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Conclusion/Support

Through its outreach efforts, management is aware of community development activities within its local community and is willing to participate in any such programs. Community development is primarily supported through direct lending. Currently, the institution has a loan-to-deposit ratio of 61%, with loans representing 54% of total assets. Loan activity appears reasonable given local economic conditions.

The bank has provided a variety of credit services to meet local real estate and commercial needs. Small business lending has included loans for various purposes including business start-up, revitalization, and expansion. As previously mentioned, 399 commercial loans have been made since the previous evaluation. Some recent credit extensions include:

Several loans totaling \$73,308 were extended to start a new medical practice that resulted in the creation of four new jobs.

A loan was made for \$18,594 to start-up a local automobile repair center which created five new employment opportunities.

A total of \$131,040 in funding was originated to open a new animal hospital. Twelve new jobs were created.

Credit in the amount of \$151,000 to a local contractor for the refurbishment of substandard housing was provided.

A \$57,000 loan was extended for the construction of rental property for low- and moderate-income residents.

Conclusion/Support--contd.

The institution has also financed two loans totaling \$61,210 to the City of Emporia for the purchase and maintenance of equipment. In addition, a loan totaling \$1 million was made to the Southside Regional Jail Authority for the construction of a new prison facility to be located in Greensville County. The bank continues to support the efforts of the Emporia Downtown Revitalization Program. Loans for facade improvements, inventory, and fixtures are offered to businesses located in the downtown area at 2% below the bank's prime lending rate. No loans, however, have been extended under this program since the previous evaluation.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Conclusion/Support

The institution has supported projects promoting economic growth consistent with its size, financial capacity, and location. The City of Emporia and the County of Greensville are located in the southeastern portion of the Commonwealth, just north of the North Carolina border. The area is mostly rural with a total population of 14,159. Employment opportunities are provided through various industries including wood products, food processing, textiles, and agriculture. In addition, the Greensville Correctional Facility provides approximately 1,000 local jobs. The current unemployment rates for the City of Emporia and Greensville County are 7.0% and 4.5%, respectively. This compares to a jobless rate of 4.0% for the Commonwealth.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Conclusion/Support

The bank routinely contributes financial and technical assistance to various local nonprofit organizations, schools, and community groups. Financial donations to these types of organizations totaled \$6,945 in 1995 and \$3,055 in 1996. Furthermore, senior management, directors, and other bank personnel are actively involved with a variety of organizations including local government, the Emporia Greensville Industrial Development Corporation, and the Emporia Industrial Development Authority.

There appear to be no restrictions on the bank's ability to provide credit to the community consistent with its human and financial resources.