

**PUBLIC DISCLOSURE**

July 7, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

F & M Bank - Richmond  
05512435  
P. O. Box 28189  
Richmond, Virginia 23228

**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

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, Richmond, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of July 7, 1997. The agency evaluates performance in the assessment area as delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. 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.

F & M Bank primarily serves its assessment area through direct lending, and a substantial majority of the bank's loans were originated within this area. The distribution of lending throughout the assessment area is considered satisfactory, with loans originated in census tracts of all levels, including low- and moderate-income geographies. Furthermore, loans have been extended to customers of different income levels and to businesses of varying sizes. Use of qualified investments has been limited to a number of small contributions. The institution provides a full range of products and services through various means to meet the needs of local residents.

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

PERFORMANCE LEVELS	<u>F &amp; M Bank</u>		
	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
Substantial Noncompliance			

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

**DESCRIPTION OF INSTITUTION**

F & M Bank has ten branches located throughout the City of Richmond and Henrico and Chesterfield Counties, Virginia. As of March 31, 1997, the bank had \$168 million in assets of which 62% were loans. The loan portfolio as of this date was comprised of 69% real estate secured (including consumer and business), 19% commercial, and 12% consumer. Management has focused its lending efforts on meeting the needs of local businesses. The bank's previous CRA rating was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area encompasses the City of Richmond and Chesterfield, Henrico, and Hanover Counties, Virginia. This area is included within the Richmond-Petersburg Metropolitan Statistical Area (MSA). The bank's market contains 202 census tracts, of which 189 are populated. Of the populated geographies, 18 (10%) are low-income, 41 (22%) are moderate-income, 82 (43%) are middle-income, and 48 (25%) are upper-income. According to 1990 census data, the market area has a population of 693,517 and a median housing value of approximately \$82,000. Based on 1990 demographic data, the percentages of owner-occupied housing units by census tract are as follows: 3% in low-income census tracts, 13% in moderate-income census tracts, 46% in middle-income census tracts, and 38% in upper-income census tracts. The 1997 median family income for the MSA is \$50,500.

The following table provides assessment area demographics by the income level of families and the percentage of population living in census tracts of varying income levels. As illustrated by this chart, a majority of families within the market (65%) are middle- and upper-income and 74% of the population resides in middle- and upper-income census tracts.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Area Families by Income Level	18%	17%	25%	40%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	7%	19%	43%	31%	100%

The local economy is stable and diverse with a mixture of manufacturing, service, and Government employment opportunities. Some of the major industries in the market include metal fabrication, tobacco processing, pharmaceuticals, food products, chemicals, insurance, and banking. The current unemployment rates in the area range from 2.6% in both Chesterfield and Henrico Counties to a high of 4.5% in the City of Richmond. The current jobless rate for the Commonwealth of Virginia is 3.9%.

Community contacts were recently conducted to further assist in evaluating the bank's CRA performance. According to the contacts, assistance in purchasing affordable housing would further promote growth in the area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

The conclusions regarding the lending, investment, and service tests are summarized at the beginning of each section. Supporting information is then divided into performance characteristics that are described in Appendix A of the regulation.

**LENDING TEST**

The overall rating of the institution under the lending test is high satisfactory. The bank primarily serves its assessment area through direct lending and offers a variety of credit products. The geographic distribution of loans is considered satisfactory and a substantial majority of the sampled loans were extended within the assessment area. The bank's lending to low- and moderate-income individuals and businesses with revenues less than \$1 million is considered reasonable and generally consistent with area demographics. In addition, the institution has demonstrated a responsiveness to the credit needs of the assessment area through community development lending and some product flexibility.

Lending Activity

The range of average loan-to-deposit ratios for banks headquartered in metropolitan areas of Virginia and of similar asset size to F & M Bank is 71% to 75% for a six-quarter period ending March 1997. The bank's average loan-to-deposit ratio for the previous six quarters is 68% and is considered reasonable given the institution's size, location, and financial capacity. Further, since December 31, 1995, the bank's total loans have increased by 9%, and total deposits have grown by 10%.

As identified in the CRA Public File, a full range of credit products is offered including small business, commercial, consumer, residential mortgage, home improvement, residential construction, and agricultural loans. The following chart depicts the bank's lending activity since January 1996 by number, amount, and percentage:

F & M Bank Loan Originations 1-1-96 to 4-30-97						
Description	1996	January - April 1997	Total Loans	Percent of Lending	Total Dollar Amount (000s)	Percent of Lending
Small Business*	405	154	559	47%	\$54,563	71%
Home Mortgage Disclosure Act (HMDA) Loans*	32	9	41	3%	\$3,343	5%
Small Business-Real Estate Secured	40	20	60	5%	\$7,704	10%
Motor Vehicle	297	89	386	32%	\$4,861	6%
Other Consumer Secured	58	27	85	7%	\$5,499	7%
Other Consumer Unsecured	57	14	71	6%	\$689	1%
Totals	889	313	1,202	100%	\$76,659	100%

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

As illustrated previously, the majority of the number (52%) and dollar amount (81%) of loan originations was for business purposes. Included in the business loan figures are Small Business Administration (SBA) loans. SBA loans provide additional lending options to small businesses. Since the previous evaluation, eight SBA loans totaling \$6 million have been extended.

Consumer loans are primarily provided to accommodate the needs of new and existing business customers. The bank offers a variety of loan products that benefit small businesses and low- and moderate-income individuals. The institution's lending activity appears responsive to assessment area credit needs.

Assessment Area Concentration

The institution's volume of lending from January 1, 1996, to April 30, 1997, is represented in the following table by number and dollar amounts.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Small Business*		Consumer		HMDA		Total	
	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	563	56	490	52	32	9	1,085	117
Percentage of Loans	91%	9%	90%	10%	78%	12%	90%	10%
Amount of Loans (000's)	\$57,655	\$4,612	\$9,797	\$1,252	\$2,315	\$1,028	\$69,767	\$6,892
Percentage of Amount	93%	7%	89%	11%	69%	31%	91%	9%

\*Includes both small business loans and small business loans secured by real estate.

As depicted above, a substantial majority of the number and dollar amounts of consumer and business loans have been provided to area residents. The percentage of loans made in the assessment area is considered responsive to community credit needs.

Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables represent the institution's lending within the assessment area according to income level of census tract.

Distribution of Small Business Loans\* by Income Level of Census Tract

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	42	110	220	191	563
Percentage of Total Loans	7%	20%	39%	34%	100%
Total Amount of Loans (000s)	\$2,337	\$10,596	\$22,426	\$22,296	\$57,655
Percentage of Total Loans	4%	18%	39%	39%	100%

\* Includes both small business loans and small business loans secured by real estate.

Distribution of Consumer Loans by Income Level of Census Tract

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	19	237	234	490
Percentage of Total Loans	0%	4%	48%	48%	100%
Total Amount of Loans (000's)	0	\$181	\$3,189	\$6,427	\$9,797
Percentage of Total Loans	0%	2%	33%	65%	100%

The geographic distribution of lending for business loans is considered reasonable given the local population residing within geographies of various income levels. The percentage of business loans extended in low- and moderate-income census tracts (27%) is slightly higher than the market population residing in such areas (26%).

Only 4% of the consumer loans were extended in low- and moderate-income census tracts. Consumer loans account for only 14% of the dollar volume of loans considered in evaluating the bank's lending performance, consistent with the bank's business strategy. The low volume of consumer lending in low- and moderate-income tracts can be attributed in part to this strategy, as well as to the number and location of branch offices. Of the low- and moderate-income census tracts in the assessment area, 78% are in the City of Richmond, most of which are not within close proximity to a bank office (See Appendix A). The bank has two offices within the City of Richmond; one was recently opened in June 1997. The second location on West Franklin Street is adjacent to low- and moderate-income geographies that contain no or few families. For example, two tracts, 0303.00 and 0306.00 have no families. The tract containing the branch and the five additional contiguous tracts have only 869 total families.

A review of the bank's HMDA data from January 1996 through April 1997, revealed that 19% of these mortgage loans were extended to borrowers residing in moderate-income census tracts. Although no mortgage loans were originated in low-income geographies, only 3% of owner-occupied housing units are located in low-income census tracts.

Given local economic conditions and the size and location of the institution, the bank's overall loan distribution is considered reasonable.

Borrower's Profile

The following charts illustrate the distribution of small business and consumer loans extended in the assessment area to businesses of different sizes and by income level of the borrower from January 1, 1996, to April 30, 1997. Of the 563 business loans extended within the assessment area, 149 (26%) did not provide business revenues and therefore were not included in this analysis.

Distribution of Business Lending by Loan Amount and Size of Business\*

	\$0 - \$100,000		\$100,001 - \$250,000		> \$250,000		Totals	
Total Revenues ≤ \$1 Million	184	44%	24	6%	16	4%	224	54%
Total Revenues > \$1 Million	147	36%	31	7%	12	3%	190	46%
Totals	331	80%	55	13%	28	7%	414	100%

\* Includes both small business loans and small business loans secured by real estate.

As illustrated above, 54% of the small business loans in the assessment area were provided to businesses with revenues of \$1 million or less. Furthermore, 44% of the 414 small business loans were to borrowers with revenues not exceeding \$1 million and for an amount of \$100,000 or less. This level of lending demonstrates the bank's willingness to meet the credit needs of local small businesses.

F & M Bank continues to offer SBA loans and, as previously mentioned, has extended eight such loans since the previous evaluation. Five of these loans (\$5.8 million) were originated under the SBA 504 loan program in conjunction with the James River Certified Development Corporation and/or the Crater Development Corporation. This program requires the creation of one job for every \$35,000 borrowed from the SBA and is intended to foster the growth of local businesses and job markets. Fifty-two jobs were created in the bank's assessment area through this program.

Distribution of Consumer Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	78	103	104	205	490
Percentage of Total Loans	16%	21%	21%	42%	100%
Total Amount of Loans (000's)	\$689	\$1,183	\$1,355	\$6,570	\$9,797
Percentage of Total Amount	7%	12%	14%	67%	100%

The percentage of consumer lending to low- and moderate-income individuals (37%) is slightly higher than the percentage of such families residing in the assessment area (35%). In addition, 18% of mortgage loans reported on the bank's LAR were to low- and moderate-income residents. As noted previously, however, only 32 residential mortgage loans were extended within the assessment area from January 1996 to April 1997.

Given the products offered and the lending focus of the institution, the distribution of loans to borrowers of different income levels and to businesses of different sizes appears reasonable.

Community Development Loans

The bank has originated the following three qualified community development loans since the previous evaluation:

- C A loan to purchase a 25-unit apartment building in the City of Richmond that will be 100% leased to low- and moderate-income disabled/mentally challenged residents. These individuals, referred through doctors, social workers, case workers, and other institutions, are unable to afford traditional housing options. Rents are paid by the residents' disability and Medicaid checks. The apartment complex also provides these individuals with free transportation to medical facilities and stores, therapy, group activities, and full-time nurses.
  
- C A loan to purchase and repair a 16-unit apartment building in the City of Richmond that will be converted to housing for low- and moderate-income mentally handicapped and elderly individuals. Rents will be paid by the residents' disability and Medicaid checks.
  
- C A loan to purchase 80 acres of land in Chesterfield County located in an Enterprise Zone. The county offers special tax incentives to companies that locate in this targeted economically disadvantaged region. The property will be developed for commercial use in the near future, and several companies have already expressed an interest in relocating to this area.

To the extent the bank originated any additional community development loans, such financing has been reported as small business or HMDA loans.

#### **INVESTMENT TEST**

The institution's level of responding to community development needs through its investment activities is rated needs to improve. The institution's participation in qualified community development investments is limited to four donations, totaling \$2,600, to local housing and revitalization organizations. The bank's investment portfolio is primarily comprised of Government securities, none of which qualify as community development investments. Consequently, the institution's level of qualified investments is considered inadequate.

Management is encouraged to consider other investment opportunities that have community development as the primary purpose.

#### **SERVICE TEST**

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

#### Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. Eight of the bank's ten branch offices maintain Automated Teller Machines (ATMs) that provide 24-hour nationwide network access. In addition, five cash dispensing machines are available to local residents. Telephone banking services also provide customers with 24-hour accessibility. Additionally, a bank by mail program is offered by the institution which further enhances the bank's delivery systems.

#### Branch Locations and Hours of Operation

Branch locations and business hours are considered convenient and meet the needs of the assessment area. F & M Bank's ten offices are accessible to all segments of the community and two branches are located in low- and moderate-income census tracts (See Appendix B). In June 1997, the bank opened a branch on Forest Hill Avenue in the City of Richmond. While no branches have been closed since the previous evaluation, a branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. Hours of operation are considered convenient with all but one branch offering Saturday hours.

#### Community Development Services

F & M Bank sponsors financial education seminars for the benefit of individuals, schools, and small businesses. Bank personnel also routinely provide assistance to many low- and moderate-income individuals in applying for and understanding credit.

The bank also provides technical assistance to community development organizations. Specifically, a branch manager serves as Treasurer for the Habitat for Humanity, as well as on the Finance and Administration Committee and the Executive Committee of this organization. In addition, a member of senior management was recently reappointed by the Henrico County Board of Supervisors to serve on the board for the James River Development Corporation. This individual also serves on the Loan Committee for this organization. The bank's provision of community development services is considered 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. 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.