

### **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 the Bank of Ferrum in Ferrum, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of November 17, 1997. 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 Outstanding.

The bank's loan-to-deposit ratio is considered more than reasonable given its financial capacity and the demand for credit in the area. A substantial majority of loans sampled during the examination were provided to residents of the assessment area. The institution's lending to low- and moderate-income borrowers significantly exceeds the proportion of such families residing in the assessment area. The geographic distribution of loans within the local community meets standards for satisfactory performance.

## **DESCRIPTION OF INSTITUTION**

The Bank of Ferrum operates five branches in Franklin County, Virginia. While the main office is situated in the Town of Ferrum, the bank's executive offices are located in the Town of Rocky Mount, Virginia. As of September 30, 1997, the bank reported assets of \$136 million of which 64% were loans. Various deposit and loan products are available through the institution, including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio as of September 30, 1997, is as follows: 79% real estate secured (consumer and business), 11% consumer, and 10% commercial. Based on the number of loans extended during the previous six months, consumer unsecured loans were identified as the bank's primary credit product. The institution's previous CRA rating was outstanding.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area consists of Franklin County and census tracts 111.00 and 113.00 in Henry County. Located in south central Virginia, this area is predominantly rural. According to 1990 census data, the assessment area has a population of 47,109 and includes 11 census tracts. Ten of the eleven geographies are considered middle-income. The remaining census tract is upper-income and contains 8% of the market's population. The 1997 median-family income for nonmetropolitan areas within Virginia is \$34,800.

The economy in the area continues to experience steady growth, with farming and light manufacturing serving as the major industries. Primary employers include Lane Furniture Company, Sara Lee Knit Products, Standard Register, and the local government. As of October, 1997, the unemployment rates for Franklin and Henry Counties were 2.6% and 3.1%, respectively. The jobless rate for the Commonwealth of Virginia is 3.5%.

A community contact with a local community service organization was made to further assist in evaluating the bank's CRA performance. According to the contact, area financial institutions are meeting the credit needs of the local community.

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

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

During a six-quarter period ending September 1997, the quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to the Bank of Ferrum ranged from 71% to 74%. The bank's average loan-to-deposit ratio for the previous six quarters is 89%. During this time period, total loans have increased 36%, while deposits have grown 17%. The bank's level of lending is considered highly responsive to area loan demand and exceeds standards for satisfactory performance.

**LENDING IN ASSESSMENT AREA**

To determine the institution's volume of lending within the assessment area, a sample of 109 of the 239 consumer unsecured loans extended during the previous six months was reviewed. 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	90	19	109
Percentage of Total Loans	83%	17%	100%
Total Amount of Loans (000's)	\$290	\$53	\$343
Percentage of Total Amount	85%	15%	100%

As illustrated above, a substantial majority of the number and dollar amounts of the sampled loans were provided to residents of the assessment area.

**LENDING TO BORROWERS OF DIFFERENT INCOMES**

The following chart represents the distribution of the sampled consumer unsecured loans extended within the assessment area to borrowers of different incomes.

**Distribution of Loans by Income Level of Borrower**

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	34	33	15	8	90
Percentage of Total Loans	38%	37%	16%	9%	100%
Total Amount of Loans (000's)	\$93	\$83	\$83	\$31	\$290
Percentage of Total Loans	32%	29%	29%	10%	100%

As a means of comparison, the chart below depicts the distribution of assessment area families according to the 1990 census, by low-, moderate-, middle-, and upper-income levels.

Percentage of Families in Assessment Area by Income Level

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Families	16%	17%	26%	41%	100%

When compared to the distribution of area families, the percentage of sampled loans extended to low- and moderate-income borrowers (75%) substantially exceeds the proportion (33%) of such families in the assessment area. Furthermore, unsecured loans are routinely made to customers for amounts less than \$1,000. These small dollar loans often assist in meeting the credit needs of lower-income residents. This level of lending is considered to exceed standards for a satisfactory performance.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The review of loan files also included an analysis of lending among middle- and upper-income census tracts within the assessment area. As previously mentioned, the local market contains 11 census tracts of which ten are middle-income and one is upper-income. The following chart depicts the geographic distribution of the sampled loans according to income level of census tract.

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

	Middle- Income	Upper-Income	Total
<b>Total Number of Loans</b>	88	2	90
<b>Percentage of Total Loans</b>	98%	2%	100%
<b>Total Amount of Loans (000's)</b>	\$282	\$8	\$290
<b>Percentage of Total Loans</b>	97%	3%	100%

The bank's lending in middle-income census tracts (98%) is slightly higher than the percentage of the population residing in such areas (92%). The geographic distribution of loans appears reasonable given the bank's resources and area demographics.

**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.