

PUBLIC DISCLOSURE
September 21, 1998
COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank-Emporia
05510910
P. O. Box 955
Emporia, Virginia 23847

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

<p>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.</p>
--

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 F & M Bank-Emporia, Emporia, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of September 21, 1998. 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 bank's loans were extended in the assessment area, and the geographic distribution of the loans is considered reasonable. Lending to low- and moderate-income individuals and to businesses with revenues less than \$1 million is considered reasonable in relation to area demographics. Delivery systems and branch locations are considered readily accessible to all segments of the assessment area. Participation in qualified community developments investments is considered adequate.

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

PERFORMANCE LEVELS	<u>F & M BANK-EMPORIA</u>		
	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
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-Emporia operates three full-service branches within the City of Emporia, Virginia. The

institution is headquartered in the City of Emporia and is a subsidiary of F & M National Corporation, a multibank holding company located in Winchester, Virginia. As of June 30, 1998, the bank had \$71 million in assets of which 52% were loans. Various credit products are available through the institution including commercial, consumer, and residential mortgage loans. The loan portfolio as of June 30, 1998, was comprised of 68% real estate secured (including consumer and business), 14% business/agricultural, 15% consumer loans, and 3% other. The bank's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS LENDING TEST

Lending Activity

The institution primarily serves its markets through direct lending and offers a variety of credit products. During an eight-quarter period ending June 1998, the quarterly average loan-to-deposit ratio for all banks headquartered in nonmetro-politan areas of Virginia and of similar asset size to F & M Bank-Emporia ranged from 67% to 72%. The bank's average loan-to-deposit ratio for an eight-quarter period ending June 1998 is 62% and is considered reasonable given the institution's size, location, and financial capacity. Since the previous examination, the bank has experienced loan, deposit, and asset growth of 4%, 5%, and 6%, respectively.

As identified in the CRA Public file, a full range of credit products is offered including consumer, commercial, residential mortgage, home improvement, and agricultural loans. The bank also offers Small Business Administration (SBA) loans under a low documentation program. Since the previous evaluation, one SBA loan for \$35,000 has been made under this program. The following chart depicts the bank's lending activity from January 1, 1997 to December 31, 1997.

F & M Bank-Emporia Loan Originations from January 1, 1997 to December 31, 1997				
	Total Loans	Percentage of Lending	Total Dollar Amount (000's)	Percentage of Lending
Small Business/Small Farm *	191	18%	\$5,280	36%
Residential Real Estate	56	5%	\$1,952	13%
Consumer Loans **	836	77%	\$7,549***	51%
Totals	1,083	100%	\$14,781	100%

* The institution is required to collect information about these types of loans. Also include ten real estate secured commercial loans.

** The consumer loans include motor vehicle, home equity, other secured consumer, and other unsecured consumer loans.

*** This dollar figure is an estimate.

As illustrated, the greatest number (77%) and dollar volume (51%) of loans is represented by consumer purpose loans. Small business/small farm loans, however, also account for a significant portion of the dollar volume of loans extended. A sample of consumer and residential real estate loans was reviewed to measure the volume of lending to low- and moderate-income borrowers and within geographies of varying income levels. The residential real estate lending is comprised primarily of home equity lines of credit and was grouped with consumer loans for analysis purposes. The analysis of the lending activity is presented later in this report.

The institution's volume of small business/small farm lending from September 1, 1996, through December 31, 1997, is represented in the following table by number and dollar amounts. The consumer loans, including 23 real estate secured equity loans, sampled during the examination are also represented in this chart. The consumer loan sample was selected from 836 consumer loans extended during the twelve-month period ending December 31, 1997.

Comparison of Credit Extended Inside and Outside of Assessment Areas

	Small Business/Small Farm*		Consumer		Total	
	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	184	5	170	11	354	16
Percentage of Loans	97%	3%	94%	6%	96%	4%
Amount of Loans (000's)	\$6,284	\$43	\$1,535	\$147	\$7,819	\$190
Percentage of Amount	99%	1%	91%	9%	98%	2%

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

As depicted in the table above, a substantial majority of the number (96%) and dollar amounts (98%) of the loans have been provided to area residents. Overall, the percentage of loans made in the assessment area is considered responsive to community credit needs.

The bank is primarily a consumer lender. A significant majority of the sampled consumer loans were made to low- or moderate-income borrowers. The lending to businesses with revenues less than \$1 million is considered more than reasonable relative to area demographics. A large portion of the small business/small farm loans were for amounts of \$100,000 or less. The geographic distribution of loans, which is discussed in greater detail later in this report, is considered reasonable with penetration into moderate-income geographies. There are no populated low-income geographies within the assessment area.

The overall rating of the institution under the lending test is high satisfactory.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated low satisfactory. Qualified community development investments include bonds issued by the Virginia Housing Development Authority (VHDA). Additionally, a small number of donations were 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. The bank's participation in 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 Equal Credit Opportunity Act's Regulation B were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

NONMETROPOLITAN STATEWIDE AREAS

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

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE ASSESSMENT AREA

F & M Bank-Emporia is headquartered in and operates three branches within the City of Emporia, Virginia. The institution's assessment area is primarily rural and encompasses the City of Emporia and Greensville and Brunswick Counties, and portions of Southampton (2002, 2003), and Sussex (8701, 8702) Counties, Virginia. The assessment area contains 15 census tracts/block numbering areas (BNAs) of which 14 are populated. Of the populated geographies, three are moderate-income, ten are middle-income, and one is upper-income. The unpopulated geography within the market is a low-income census tract. According to the 1990 census data, the assessment area has a population of 39,094 and a median housing value of \$45,843. The owner-occupancy rate for the market is 64% which is comparable to that for nonmetropolitan areas of Virginia (65%). The 1997 median family income for nonmetropolitan areas of Virginia is \$34,800. The following table provides demographic information for the assessment area by the income level of families and the percentage of population living in census tracts/BNAs of varying income levels.

Assessment Area Demographics

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	27%	17%	25%	31%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	0%	14%	86%	<1%	100%
Percentage of Owner- Occupied Housing Units by Income Level of Tract	0%	13%	87%	<1%	100%
Poverty Rates by Income Level of BNA	0%	18%	16%	0%	0%

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 table below provides the July 1998 unemployment rates within the assessment area. The jobless rate for the Commonwealth of Virginia for the month was 3.1%.

County or City	Unemployment Rate as of July 1998
City of Emporia	6.9%
Brunswick County	4.4%
Greensville County	4.8%
Sussex County	4.2%
Southampton County	5.2%

A community contact was made to further assist in evaluating the bank's CRA performance. According to the contact, local financial institutions are adequately 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 the small business/farm loan data collected as required by the CRA (September 1996 through December 1997) as well as the sampled consumer and residential real estate loans (January 1997 through December 1997). As previously noted, there are no populated low-income census tracts/BNAs within the assessment area.

Distribution of Small Business*/Small Farm Loans by Income Level of Census Tract/BNA

	Moderate- Income	Middle-Income	Upper- Income	Total
Total Number of Loans	46	131	7	184
Percentage of Total Loans	25%	71%	4%	100%
Total Amount of Loans (000's)	\$1,642	\$4,556	\$86	\$6,284
Percentage of Total Amount	26%	73%	1%	100%

Distribution of Consumer Loans by Income Level of Census Tract/BNA

	Moderate- Income	Middle-Income	Upper- Income	Total
Total Number of Consumer Loans	26	137	7	170
Percentage of Total Loans	15%	81%	4%	100%
Total Amount of Consumer Loans (000's)	\$313	\$1,140	\$82	\$1,535
Percentage of Total Amount	20%	74%	6%	100%

The level of small business/small farm lending (25% - the distribution was approximately the same for both types of loans) in moderate-income geographies meets or exceeds the 1997 aggregate percentage for all financial institutions required to report data on small business/small farm lending within the assessment area. Twenty-one percent of the small business loans and 25% of small farm loans extended by these reporting institutions were made within the moderate-income geographies. The distribution of consumer loans (15%) in moderate-income census tracts/BNAs appears reasonable in relation to the percentage of the population (14%) residing in this area. The bank's overall loan distribution is considered reasonable given the demographics.

Borrowers' Profile

The following charts illustrate the distribution of small business/small farm and consumer loans, including the residential real estate 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 or Farm

	\$0 - \$100,000		>\$100,000 to \$250,000		> \$250,000		Total	
Number Total Revenues < \$1 Million	172	93%	6	3%	3	2%	181	98%
Number Total Revenues ≥ \$1 Million	0	0%	1	1%	2	1%	3	2%
Total Numbers	172	93%	7	4%	5	3%	184	100%

As illustrated in the preceding table, 98% (181/184) of the small business/small farm loans in the assessment area were provided to businesses with revenues of \$1 million or less. Furthermore, 93% 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 Consumer Loans by Income Level of Borrower

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Consumer Loans	54	39	23	12	128*
Percentage of Total Loans	42%	31%	18%	9%	100%
Total Amount of Consumer Loans (000's)	\$245	\$334	\$274	\$120	\$973
Percentage of Total Amount	25%	35%	28%	12%	100%

* Income information was unavailable for 42 of the 170 consumer loans.

As illustrated above, the volume of consumer loans to low- and moderate-income borrowers (42% and 31%, respectively) exceeds the proportion of low-income (27%) and moderate-income (17%) families in the assessment area. The overall distribution of loans to borrowers of different incomes and to businesses of different sizes is considered more than reasonable and demonstrates the bank’s willingness to meet the credit needs of all segments of its community.

Community Development Loans

To the extent the bank may have reported any community development loans, such financing has been reported as small business loans.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated low satisfactory. The bank has purchased Virginia Housing Development Authority (VHDA) bonds totaling \$200,000. The VHDA is an independent agency of the Commonwealth whose purpose is to facilitate the housing needs of low- and moderate-income individuals and families. Additionally, a small number of donations were made to local charitable organizations whose operations primarily serve low- and moderate-income individuals or areas.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of this assessment area. Four automated teller machines (ATM's) are available and through a network customers have 24-hour nationwide access. Bank by mail services are also offered by the institution for deposit and lending products. F & M Direct bank-by-phone service also 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. Of the bank's three offices, one is located in a moderate-income census tract. Branch offices are generally open Monday through Friday 9:00 a.m. until 2:00 p.m. and 3:30 p.m. until 5:30 p.m. Between 2:00 p.m. and 3:30 p.m., walk-up teller services are available. Saturday hours are also offered.

Community Development Services

The bank offers low-cost checking and savings accounts with nominal opening balance requirements. Low-cost checking is also offered to nonprofit associations. Also, free Government check cashing is available. Although the bank has not participated in other activities that would qualify as community development services, opportunities for participation in such activities are limited within the bank's predominately rural market.