

PUBLIC DISCLOSURE

November 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank-Peoples
600222
P. O. Box 93
Winchester, Virginia 20188-0093

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

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.

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-Peoples, Warrenton, Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency, as of November 15, 1999. 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 lending and offers a variety of credit products. A majority of the institution's loans were extended in the bank's two assessment areas. Furthermore, the geographic distribution of loans and lending to borrowers of varying incomes and to businesses of different sizes is considered responsive to area credit needs. Delivery systems and branch locations are considered readily accessible to all segments of the assessment areas. The institution also provides a variety of products and services through various means to meet the needs of local residents. Participation in qualified community development investments, however, has been limited. The bank has not received any complaints regarding its CRA performance since

the previous evaluation.

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

PERFORMANCE LEVELS	<u>F & M Bank-Peoples</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-Peoples operates four full-service branches throughout northern Virginia. Specifically, branches are located in the Towns of Warrenton (2) and Marshall (1), and Stafford County (1), Virginia. The institution is headquartered in the Town of Warrenton, Virginia and is a subsidiary of F & M National Corporation, a multi-bank holding company based in Winchester, Virginia. As of September 30, 1999, the bank had \$125 million in assets of which 74% was in loans and 18% was in securities. Various credit products are available through the institution including business, consumer, and residential mortgage loans. The loan portfolio as of September 30, 1999, was comprised of 74% real estate secured (including consumer and business), 11% consumer, 11% business/agricultural, and 4% other. Since the previous examination, loans and deposits have increased by 33% and 16%, respectively, while assets increased 14% overall. The bank's previous CRA rating was satisfactory. F & M Bank-Peoples has not opened or closed any branches since the previous consumer affairs examination dated March 24, 1997.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

Lending Activity

The institution primarily serves its markets through lending and offers a variety of credit products. During a ten-quarter period ending September 30, 1999, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Virginia and of similar asset size to F & M Bank-Peoples ranged from 72% to 75%. The bank's average loan-to-deposit ratio for the same ten-quarter period is 72%. This level of lending is considered responsive to area loan demand given the institution's size, location, and financial capacity.

As identified in the CRA Public file, a full range of credit products is offered including consumer, small business, residential mortgage, home improvement, and commercial loans. The following chart depicts the number and dollar amount of originated loans for the institution during the time period noted.

F & M BANK-PEOPLES LOAN ORIGINATIONS (MARCH 1997 TO MARCH 1999)				
Loan Type	Total Loans	Percentage of Lending	Total Dollar Amount (000's)	Percentage Of Lending
REAL ESTATE PURCHASE AND REFINANCE *	152	25%	18,558	44%
HOME IMPROVEMENT *	49	8%	1,779	4%
SMALL BUSINESS *	281	47%	21,187	50%
SMALL FARM *	5	1%	74	>1%
OTHER SECURED CONSUMER	50	8%	279	1%
OTHER UNSECURED CONSUMER	65	11%	259	1%
TOTALS	602	100%	42,136	100%

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

As illustrated in the preceding chart, a majority of the bank's lending was for small business purposes. Small business products include loans for cash flow, inventory, start up, and farm purposes. The bank's mortgage products, which accounted for 25% of the volume and 44% of the dollar amounts, include first and second mortgages and home improvement loans. These loans are required to be reported under the Home Mortgage Disclosure Act (HMDA).

F & M Bank-Peoples' volume of small business, consumer, and HMDA lending from March 1997 to March 1999 is represented in the following table by

number and dollar amounts. Small farm loans were not considered for analysis purposes because the bank only reported five small farm loans since the previous evaluation. Consumer loans include other consumer secured (excluding motor vehicle and home equity) and other consumer unsecured loans (excluding credit cards). These figures represent lending activity within both the metropolitan and nonmetropolitan assessment areas.

Comparison of Credit Extended Inside and Outside of Assessment Areas

	Small Business *		Consumer		HMDA *		Total	
	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	216	65	76	39	152	49	444	153
Percentage of Loans	77%	23%	66%	34%	76%	24%	74%	26%
Amount of Loans (000's)	\$13,352	\$7,835	\$337	\$200	\$15,280	\$5,057	\$28,969	\$13,092
Percentage of Amount	63%	37%	63%	37%	75%	25%	69%	31%

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

As depicted above, a majority of the number (74%) and dollar amounts (69%) of the loans were provided to assessment area residents. Overall, the percentage of loans made in the assessment areas is considered responsive to community credit needs.

The analysis of small business, HMDA, and consumer loans is discussed in detail later in the report. The analysis of loans to individuals of varying incomes and to businesses of different sizes reveals a reasonable distribution. Loan penetration among various geographies is considered responsive to area credit needs.

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 needs to improve. Qualified community development investments include a small number of donations 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. Further, the bank's offerings of community development services are considered innovative and responsive.

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 HMDA's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

METROPOLITAN ASSESSMENT AREA (for metropolitan areas with some or all assessment areas reviewed using the examination procedures)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN FAUQUIER AND STAFFORD COUNTIES ASSESSMENT AREA:

This assessment area includes all of Fauquier and Stafford Counties. The area is part of the Washington, D. C. Metropolitan Statistical Area (MSA) and contains 20 census tracts and block numbering areas (BNAs). Of the 20 geographies, four are low-income, two are moderate-income, and 14 are middle-income. There are no upper-income areas and the four low-income areas are unpopulated. According to the 1990 census data, the market has a population of 109,977 and a median housing value of \$133,177. The owner-occupancy rate for the assessment area is 73%, which exceeds the rate for the MSA (57%) and for the state of Virginia (61%). The 1998 and 1999 median family incomes for the MSA are \$72,300 and \$78,900, respectively. With the expansion of the Washington, D. C. MSA, population and housing costs in the assessment area have risen sharply over the past five years.

The following table provides demographics for the metropolitan assessment area by the income level of families and the percentage of population living in census tracts/BNAs of varying income levels. Also included are owner-occupancy and poverty rates for each geographic area.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Area Families by Income Level	17%	23%	30%	30%	100%
Percentage of Population Residing in Census Tracts/BNAs by Income Level of Tract/BNA	0%	7%	93%	N/A	100%

Percentage of Owner-Occupied Units by Income Level of Tract/BNA	0%	7%	93%	N/A	100%
Percentage of Families Below Poverty Level by Income of Tract/BNA	0%	3%	3%	N/A	N/A

The assessment area's close proximity to Washington, D. C., and surrounding areas provides employment for a large number of residents. Fauquier and Stafford Counties have become bedroom communities to the Washington, D. C. area. The local economy relies on the government, tourism, communications, and agricultural industries, with the Federal government and America On-line, being among the largest employers. The September 1999 unemployment rate for Fauquier County was 1.5% and 1.8% for Stafford County, while the Commonwealth had a jobless rate of 3%.

A community contact was made to further assist in evaluating the bank's CRA performance. According to the contact, financial institutions are adequately serving the growing credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN FAUQUIER AND STAFFORD COUNTIES ASSESSMENT AREA:

LENDING TEST

Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables include consumer, HMDA, and small business loans extended from March 1997 to March 1999. Area demographics, market aggregate information, and June 1999 Dun and Bradstreet (D & B) business data are used as proxies for demand when evaluating the bank's penetration into geographies of different income levels. Although there are no populated low-income geographies according to 1990 census data, discussions with bank management indicate that business and residential development has recently occurred in such areas thereby providing lending opportunities. As previously mentioned, there are no upper-income areas within this assessment area.

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF TRACT/BNA - FAUQUIER AND STAFFORD COUNTIES ASSESSMENT AREA				
Tract Income Level	#	Percentage	\$(000s)	Percentage
Moderate-Income	4	5%	\$10	3%
Middle-Income	71	95%	\$326	97%
Totals	75	100%	\$336	100%

Of the 75 consumer loans extended within this assessment area, 5% were in moderate-income geographies. This level of lending is slightly less than the percentage of population (7%) residing in such areas.

DISTRIBUTION OF HMDA LOANS BY INCOME LEVEL OF TRACT/BNA - FAUQUIER AND STAFFORD COUNTIES ASSESSMENT AREA				
Tract Income Level	#	Percentage	\$(000s)	Percentage
Low-Income	9	6%	\$778	5%
Moderate-Income	4	3%	\$626	4%
Middle-Income	134	91%	\$13,392	91%
Totals	147	100%	\$14,796	100%

The distribution of HMDA lending (9%) in low and moderate-income census tracts/BNAs slightly exceeds the proportion of owner-occupied units (0% in low and 7% in moderate) located within these geographies. The bank's HMDA lending is also slightly higher than the market aggregate. Specifically, aggregate data revealed an 8% penetration of loan volume in low and moderate-income tracts. The aggregate data includes F & M Bank-Peoples and all reporting institutions that originated HMDA reportable loans within the bank's assessment area for 1998.

DISTRIBUTION OF SMALL BUSINESS LOANS BY INCOME LEVEL OF TRACT/BNA - FAUQUIER AND STAFFORD COUNTIES ASSESSMENT AREA				
Tract Income Level	#	Percentage	\$(000s)	Percentage
Low-Income	2	1%	\$132	1%
Moderate-Income	18	8%	\$534	4%
Middle-Income	196	91%	\$12,686	95%
Totals	216	100%	\$13,352	100%

The bank's small business loan penetration in low- and moderate-income geographies is 9%. A review of the 1998 small business aggregate data revealed a <1% penetration of total loan volume in low-income areas and a 16% penetration in moderate-income areas. Further, D & B information shows that <1% of all commercial entities are located in low-income geographies and 9% in moderate-income geographies.

Using the various proxies to estimate demand, the bank's geographic lending distribution (including small business, consumer, and HMDA loans) is considered reasonable and demonstrates the bank's ability to serve all segments of its assessment area, including low- and moderate-income geographies.

Borrower Profile

The following charts illustrate the distribution of consumer, HMDA, and small business loans extended in the assessment area by income level of the borrower

and to businesses of different sizes.

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF BORROWER - FAUQUIER AND STAFFORD COUNTIES ASSESSMENT AREA				
Borrower Income Level	#	Percentage	\$(000s)	Percentage
Low-Income	47	63%	\$162	48%
Moderate-Income	16	21%	\$101	30%
Middle-Income	7	9%	\$39	12%
Upper-Income	5	7%	\$34	10%
Totals	75	100%	\$336	100%

As illustrated above, the percentage of consumer loans to low- and moderate-income borrowers (84%) is significantly higher than the proportion of such families (40%) in the assessment area.

DISTRIBUTION OF HMDA LOANS BY INCOME LEVEL OF BORROWER – FAUQUIER AND STAFFORD COUNTIES ASSESSMENT AREA				
Borrower Income Level	#	Percentage	\$(000s)	Percentage
Low-Income *	18	12%	\$547	4%
Moderate-Income *	49	33%	\$3,650	25%
Middle-Income *	45	31%	\$4,780	32%
Upper-Income *	35	24%	\$5,819	39%
Total Where Income Reported	147	100%	\$14,796	100%
Total Income Unknown **	0	0%	\$0	0%
Totals - All Loans	147		\$14,796	

* Percentages based on loans where income reported.

** Percentages based on all reported loans.

The percentage of HMDA loans to low- and moderate-income borrowers (46%) exceeds the percentage of such families (40%) in the assessment area. This level of lending is also substantially higher than the market aggregate. Specifically, a review of the 1998 HMDA aggregate data indicated that of all HMDA originations extended within the bank's assessment area, 9% were to low-income borrowers and 19% to moderate-income borrowers.

Distribution of Lending by Loan Amount and Size of Business

	\$0 - \$100,000		>\$100,000 to \$250,000		> \$250,000		Total	
	Total Revenues ≤ \$1 Million	166	77%	22	10%	11	5%	199
Total Revenues > \$1 Million	14	6%	3	2%	0	0%	17	8%
Totals	180	83%	25	12%	11	5%	216	100%

Based on demographic data from D & B, 91% of local businesses have revenues less than \$1 million per year. According to 1997 aggregate small business data, at least 92% of all business loans reported by subject financial institutions within the market area were to businesses with revenues of \$1 million or less. The remaining loans were either to larger businesses or the size of the business was not reported. As indicated in the table, 92% (199/216) of the bank's loans were to entities with revenues of \$1 million or less and 77% of these loans were in amounts of \$100,000 or less. This level of lending is comparable to the aggregate and business data and demonstrates the bank's willingness to meet the credit needs of local small businesses.

Using area demographics and aggregate data as proxies for demand, the overall distribution of loans to borrowers of different incomes and to local small businesses is considered good.

Community Development Loans

To the extent that the bank may have originated any loans for community development purposes in the assessment area, such financing has been reported as small business or HMDA loans.

INVESTMENT TEST

Qualified investments in this assessment area are limited to donations for various nonprofit organizations. The contributions were to organizations that primarily benefit low- and moderate-income people. Overall, the level of qualified investments needs to improve considering institution's size, market area, and investment levels of similarly situated banks.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of this assessment area. Fifteen (94%) of the bank's 16 automated teller machines (ATMs) are located in the

metropolitan market area. The ATM locations provide local residents with 24-hour nationwide network access. Six of the metropolitan ATMs (40%) are located in moderate-income geographies. Telephone, bank by mail, and internet services are also available to provide customers with 24-hour accessibility.

Branch Locations and Hours of Operation

Branch locations and business hours are considered convenient and meet the needs of the assessment area. The institution operates four full-service offices in the assessment area, of which one is located in a moderate-income area. Branches generally are open Monday through Thursday from 9:00 a.m. until 5:00 p.m., Friday until 7:00 p.m. and Saturday until noon. A branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. The bank has not opened or closed any new branches since the previous evaluation.

Community Development Services

The bank is involved in a variety of community services. F & M Bank-Peoples participates in the Fauquier Bankers Community Coalition (FBCC), an association of area banks committed to developing consumer education for low- and moderate-income consumers that are interested in home ownership. Also, bank personnel have provided assistance to Fauquier Housing Corporation and Habitat for Humanity. Both organizations provide housing for low- and moderate-income individuals. Furthermore, bank personnel routinely provide credit counseling and other assistance to many low- and moderate-income individuals in applying for and understanding credit.

The bank offers low-cost checking and savings accounts to school children, senior citizens, individuals, and nonprofit organizations. Senior citizen benefits include free trust and estate planning and financial services consulting. These accounts benefit all segments of the community including low- and moderate-income individuals. The bank also provides Social Security check cashing for noncustomers. The institution's array of community development services is considered responsive to area needs.

NONMETROPOLITAN ASSESSMENT AREA

(for metropolitan areas with some or all assessment areas reviewed using the examination procedures)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE RAPPAHANNOCK ASSESSMENT AREA:

The bank's second assessment area includes all of Rappahannock County, Virginia. This market is not part of an MSA and contains two BNAs. Of the two BNAs, one is middle-income and one is upper-income. According to 1990 census data, the population for the assessment areas is 6,622 and has a median housing value of \$89,306. The owner-occupancy rate is 61%, which is slightly lower than the 65% rate for nonmetropolitan portions of the Commonwealth. The 1998 and 1999 median family incomes for nonmetropolitan areas of Virginia are \$35,900 and \$38,300, respectively.

The following table provides demographics for the nonmetropolitan assessment area by the percentage of population living in BNAs of varying income levels and

by the income level of families. Also included are owner-occupancy and poverty rates for each geographic area.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	15%	12%	19%	54%	100%
Percentage of Population Residing in Census Tracts/BNAs by Income Level of Tract	N/A	N/A	40%	60%	100%
Percentage of Owner-Occupied Units by Income Level of Tract/BNA	N/A	N/A	39%	61%	100%
Percentage of Families Below Poverty Level by Income of Tract/BNA	N/A	N/A	10%	7%	N/A

Rappahanock County is located in the northwestern crest of Virginia, near the West Virginia and Maryland borders. Major area employers include Valley Health Systems (hospital supplies and services), Frederick County schools, Federal Mobile (brakes and asbestos), Rubbermaid (rubber products) and VDO-North America (dials, gauges, instrumentation). As of September 1999, the unemployment rate for Rappahanock County was 1.7%. The Commonwealth had a jobless rate of 3.0% during this time.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE RAPPAHANOCK ASSESSMENT AREA:

LENDING TEST

Geographic Distribution of Loans

As previously mentioned, the assessment area consists of only one middle-income BNA and one upper-income BNA. Accordingly, 100% of the number and dollar amount of loans within this market were extended in these geographies. Therefore, the distribution of lending by income level of geographies for this assessment area was not considered in evaluating the institution's CRA performance.

Borrower Profile

Although this assessment area includes all of Rappahanock County, the bank has no branches and only one ATM in this market. The bank's volume of lending in this community is minimal. Only one consumer loan and no small business loans were extended in this assessment area. Of the five HMDA loans extended in this market one (20%) was to a low-income individual and none were to moderate-income borrowers. Due to the limited number of loans, no further analysis was performed.

Community Development Loans

To the extent that the bank may have originated any loans for community development purposes in the assessment area, such financing has been reported as small business or HMDA loans.

INVESTMENT TEST

Qualified investments in this assessment area are limited to donations for various nonprofit organizations. The contributions were to organizations that primarily benefit low- and moderate-income people. Overall, the level of qualified investments needs to improve considering institution's size, market area, and investment levels of similarly situated banks.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of this assessment area. The one ATM location in this market provides local residents with 24-hour nationwide network access. Telephone, bank by mail, and Internet services are also available and provide customers with 24-hour accessibility.

Branch Locations and Hours of Operation

As noted earlier, there are no branches in the nonmetropolitan assessment area.

Community Development Services

Bank personnel routinely provide credit counseling and other assistance to many low- and moderate-income individuals in applying for and understanding credit. The bank offers low-cost checking and savings accounts to school children, senior citizens, individuals, and nonprofit organizations. Senior citizen benefits include free trust and estate planning and financial services consulting. These accounts benefit all segments of the community including low- and moderate-income individuals. The bank also provides Social Security check cashing for noncustomers. The institution's array of community development services is considered responsive to area needs.