



**PUBLIC DISCLOSURE**

February 3, 2020

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

Farmers Bank

619327

50 East Windsor Boulevard

Windsor, Virginia 23487

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

NOTE: This document is an evaluation of this 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. 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.

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## **INSTITUTION RATING**

**INSTITUTION'S CRA RATING: This institution is rated: SATISFACTORY.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable given bank capacity and the demand for credit within the assessment areas.
- A majority of the institution's Home Mortgage Disclosure Act (HMDA) and small business loans considered in the evaluation were originated within the bank's assessment areas.
- The bank's lending to borrowers of different income levels and small businesses with annual revenues of \$1 million or less (borrower distribution performance) is considered reasonable overall.
- The bank's geographic distribution performance (lending in low- and moderate- income census tracts) is considered reasonable overall.
- The bank's responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and services is considered adequate.
- There have been no complaints regarding the bank's Community Reinvestment Act (CRA) performance since the previous CRA evaluation.

## **SCOPE OF EXAMINATION**

Farmers Bank (FB) was evaluated using the interagency examination procedures for intermediate small institutions developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures, residential mortgage loan originations and purchases reported in accordance with the HMDA during calendar years 2016 and 2017 were reviewed. Small business loans were also identified as a significant product line and considered in the evaluation. The analysis included all small business loans that were originated by the bank during calendar year 2018.

Qualified community development loans and services were considered since the previous evaluation (October 24, 2016). All qualified investments made during this same period and those outstanding as of the date of this evaluation, regardless of when made, were also considered. To help determine the availability of community development opportunities in the assessment areas, the CRA public evaluations of other financial institutions within the assessment areas were reviewed. Additionally, a member of the community was contacted to discern information about local economic conditions and credit needs, performance of banks in the assessment areas, and potential community development opportunities.

Based on the FFIEC's evaluation procedures, an overall rating and ratings for the Lending and Community Development Tests are assigned to the institution based on its performance within the assessment area evaluated using full scope procedures. Full-scope evaluation procedures were applied to the Virginia Beach-Norfolk-Newport News, VA assessment area, as the bank's operations (i.e. loan and deposit accounts and branch locations) are concentrated in this assessment area. The bank's remaining assessment area (Franklin, VA NonMSA) was evaluated using the FFIEC's limited review procedures. For the limited review, a determination was made as to whether the performance was consistent with the assigned overall rating. Appendix B includes information detailing the lending volume, branch locations, and deposit volume by assessment area.

**DESCRIPTION OF INSTITUTION**

FB is headquartered in Windsor, Virginia, and operates seven full-service branch offices in southeastern Virginia. The institution is a subsidiary of Farmers Bankshares, Incorporated, also headquartered in Windsor, Virginia. The bank holds partial ownership of Tidewater Home Funding LLC (THF), an affiliated mortgage company that originates conventional and government-sponsored mortgage loans for sale on the secondary market. Except for mortgage loans purchased by FB from THF, loans originated by THF are not reported on the bank’s HMDA LAR and are not considered in the evaluation of the bank’s lending performance. Additionally, the evaluation only considers community development activities of the bank during the review period and does not include the activities of any other affiliates. FB received a Satisfactory rating at its prior CRA evaluation dated October 24, 2016. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment areas.

As of December 31, 2019, the bank had assets totaling \$476.5 million, of which 54.8% were net loans and 30.5% were securities. As of the same date, deposits totaled \$386.6 million. Various loan and deposit products are available through the institution including loans for consumer and commercial purposes. The composition of the loan portfolio using gross loans, as of December 31, 2019, is represented in the following table.

**Composition of Loan Portfolio**

Loan Type	12/31/2019	
	\$(000s)	%
Secured by 1-4 Family dwellings	49,349	18.5
Multifamily	4,647	1.7
Construction and Development	35,952	13.5
Commercial & Industrial/ NonFarm NonResidential	137,819	51.7
Consumer Loans and Credit Cards	8,537	3.2
Agricultural Loans/ Farmland	24,315	9.1
All Other	6,122	2.3
<b>Total</b>	<b>266,741</b>	<b>100.0</b>

As indicated in the preceding table, the bank's loan portfolio is concentrated in commercial and residential real estate loans. Small business loans (i.e. business purpose loans of \$1 million or less) are a subset of commercial and industrial loans. While the bank offers additional products, such as consumer and farm loans, the volume of such lending is relatively small in comparison to commercial and residential mortgage lending.

The bank serves two contiguous assessment areas in southeastern Virginia. The bank’s primary assessment area is a portion of the Virginia Beach-Norfolk-Newport News, VA-NC MSA, while the bank’s other assessment area is located in a rural, nonmetropolitan area (NonMSA). The bank added the cities of Norfolk and Virginia Beach, VA, to its Virginia Beach-Norfolk-Newport News, VA assessment based on its lending patterns and marketing areas. From an analysis perspective, the addition of these two cities is effective for the bank’s assessment areas beginning in 2018. The composition of each assessment area is detailed in the following table.

<b>Assessment Area Name</b>	<b>City/County</b>	<b>State</b>	<b>Census Tracts Included</b>
Virginia Beach-Norfolk-Newport News, VA	Isle of Wight County	VA	All
	Chesapeake City	VA	All
	Norfolk City*	VA	All
	Portsmouth City	VA	All
	Suffolk City	VA	All
	Virginia Beach City*	VA	All
Franklin, VA NonMSA	Southampton County	VA	All
	Franklin City	VA	All

\* Effective for the bank’s assessment area as of January 2018.

Since its previous evaluation, the bank opened one branch office and closed one branch office in the Virginia Beach-Norfolk-Newport News, VA assessment area. Both branches were located in middle-income census tracts. This branching activity did not require adjustment of the bank’s existing assessment area delineations. Appendix C reflects the bank’s branching activity since the previous evaluation.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

When evaluating the bank’s HMDA performance, relevant area demographic data from the American Community Survey (ACS) is used as a proxy for demand. While ACS data is collected and published by the U.S. Census Bureau on an annual basis, the demographic data relied upon in this performance evaluation is based on ACS data that is updated once every five years. The most recent update occurred in 2015. As such, the ACS data from 2010 is used when evaluating the bank’s performance in 2016, and the 2015 ACS data is used when evaluating 2017. Dun & Bradstreet (D&B) business demographic data from 2018 is also considered when evaluating the bank’s small business performance.

Aggregate loan data used as a proxy for demand when evaluating the bank’s HMDA lending includes all activity reported by lenders subject to reporting HMDA data that originated such loans within the bank’s assessment areas. Similarly, the aggregate small business lending data includes all lenders subject to reporting small business data. Because the bank is not required to report small business loan data, FB’s small business loans are not included in the aggregate data.

While HMDA from calendar years 2016 and 2017 were fully analyzed and considered in the evaluation, only bank and aggregate data from 2017 are presented in the assessment area analysis tables. In instances where the bank’s 2016 lending performance varies significantly from its performance noted during 2017, such variance and the corresponding impact on the overall performance is discussed.

To evaluate the borrower and geographic distribution for a specific loan category within an assessment area, primary emphasis is placed on the number (and corresponding percentage) of loans originated. To arrive at an overall assessment area conclusion regarding the distribution of lending, performance in each loan category is then generally weighted by the strength of performance and the dollar volume of such loans made in the assessment area.

Within FB’s assessment areas, a high level of small business lending activity was reported by specialized lenders, who often originate or purchase small business loans in the form of credit cards. The loans, however, tend to be much smaller in size than traditional small business bank loans, and a substantial majority of such loans do not have revenue data reported. The presence of these lenders is reflected in a smaller market share for traditional lenders and tends to understate the percentage of aggregate lending to businesses with annual revenues of \$1 million or less. These factors were considered as an aspect of performance context when evaluating the level and distribution of small business lending.

**Loan-To-Deposit Ratio**

The bank’s loan-to-deposit ratio as of December 31, 2019, equaled 67.5% and averaged 73.2% for the 14-quarter period ending December 31, 2019. In comparison, the quarterly average loan-to-deposit ratios of a peer group similar in asset size and operating in FB’s assessment areas ranged from 38.9% to 103.6% during the same 14-quarter period. Since June 30, 2016, assets and deposits have increased by 16.5% and 17.5%, respectively, while net loans have increased by 4.6%. The bank’s level of lending activity as measured by its loan-to-deposit ratio is considered reasonable given the institution’s size, financial condition, market conditions, and local credit needs.

**Lending in Assessment Areas**

To determine the institution’s volume of lending within its assessments areas, the geographic location of the bank’s HMDA lending during 2016 and 2017 and small business lending during 2018 was considered. The lending distribution inside and outside of the bank’s assessment areas is represented in the following table.

**Comparison of Credit Extended Inside and Outside of Assessment Area(s)**

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Purchase	19	48.7	2,434	27.6	20	51.3	6,376	72.4
Home Improvement	10	90.9	220	84.6	1	9.1	40	15.4
Refinancing	11	64.7	6,159	55.4	6	35.3	4,964	44.6
Multi-Family Housing	2	100.0	690	100.0	0	0.0	0	0.0
<b>Total HMDA related</b>	<b>42</b>	<b>60.9</b>	<b>9,503</b>	<b>45.5</b>	<b>27</b>	<b>39.1</b>	<b>11,380</b>	<b>54.5</b>
Small Business	162	82.7	35,199	79.9	34	17.3	8,845	20.1
<b>TOTAL LOANS</b>	<b>204</b>	<b>77.0</b>	<b>44,702</b>	<b>68.8</b>	<b>61</b>	<b>23.0</b>	<b>20,225</b>	<b>31.2</b>

As indicated in the preceding table, a majority of both the number (77%) and dollar (68.8%) volume of loans considered in the evaluation were located within the bank’s assessment areas. Overall, the institution’s level of lending within its assessment areas is considered responsive to community credit needs.

**Community Development Loans, Investments, and Services**

FB supports community development initiatives and organizations that benefit its local assessment areas and larger regional areas by funding community development loans, making qualified investments, and providing financial expertise and other support to local organizations providing community development services. The bank faces no significant constraints relative to its size and business strategy in supporting community development activities.

During the evaluation period, FB participated in the following qualified community development activities that benefit the statewide or broader regional area that include the bank's assessment areas.

- The bank holds one qualified investment equity through Plexus Fund IV totaling approximately \$1.9 million. The Plexus Fund IV is managed by Plexus Capital and operates as a licensed small business investment company (SBIC). SBICs are privately owned investment firms that are licensed and regulated by the Small Business Administration (SBA) and provide venture capital to small businesses that facilitate community development.
- Contributions to community development organizations serving both of the bank's assessment areas totaled approximately \$3,824.
- A bank officer is a member of the loan review committee of the 504 Capital Corporation, a non-profit organization that promotes economic development through participation in the SBA 504 Loan Program and finances projects in several states, including the Commonwealth of Virginia.
- A bank officer is a member of the loan committee of the Business Finance Group, a non-profit community development corporation that promotes economic development through participation in the SBA 504 Loan Program and serves businesses in the Mid-Atlantic region, including the Commonwealth of Virginia.
- A bank officer serves as a board member of the Obici Healthcare Foundation, which provides medical care cost assistance for low- and moderate-income individuals.
- Two bank officers serve as board members for Western Tidewater Free Clinic, which provides healthcare to low- and moderate- income people.
- A bank officer serves as a board member of the Paul D. Camp Community College Foundation, which provides financial aid through a scholarship program for low-and moderate-income individuals.

The bank's community development performance is considered adequate. Details of additional community development activities are discussed in the assessment area where the activities took place.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

**METROPOLITAN AREAS**

*(For metropolitan areas with some or all assessment areas reviewed using full-scope review)*

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN VIRGINIA BEACH-NORFOLK-NEWPORT NEWS, VA ASSESSMENT AREA**

The bank's assessment area is located in southeastern Virginia and includes all of Isle of Wight County and the cities of Chesapeake, Norfolk, Portsmouth, Suffolk, and Virginia Beach, Virginia. The bank's assessment area includes a portion of the Virginia Beach-Norfolk-Newport News, VA-NC MSA. Within this assessment area, FB operates six full-service branches.

As of June 30, 2019, FB ranked 8th out of 18 financial institutions in local deposit market share according to data compiled by the Federal Deposit Insurance Corporation and held 1.8% of the assessment area's deposits (credit union deposits are not included). According to 2017 HMDA aggregate data, the bank ranked 73<sup>rd</sup> out of 349 lenders in reported mortgage lending with a .1% market share.

Based on 2010 ACS data, the assessment area served by the bank has a total population of 437,599 and a median housing value of \$244,727. The owner-occupancy rate for the assessment area equals 68%, which exceeds the owner-occupancy rate for the entire MSA (59.2%) and the Commonwealth of Virginia (61.8%). The percentage of families living below the poverty level in the assessment area is 7.4%. This rate is similar to that of the overall MSA (7.6%) and the Commonwealth of Virginia (7.2%). The Virginia Beach-Norfolk-Newport News, VA-NC MSA median family income during 2016 equaled \$69,400. The following table includes pertinent demographic data for the assessment area in 2016.



**Assessment Area Demographics**

Virginia Beach-Norfolk-Newport News, VA (Based on 2010 ACS Data and 2016 D&B Information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	8	7.4	5,857	5.0	1,877	32.0	22,099	19.0
Moderate	23	21.3	21,003	18.0	2,757	13.1	19,457	16.7
Middle	41	38.0	43,385	37.2	2,534	5.8	24,934	21.4
Upper	35	32.4	46,299	39.8	1,396	3.0	50,054	42.9
NA	1	0.9	0	0.0	0	0.0		
<b>Total</b>	<b>108</b>	<b>100.0</b>	<b>116,544</b>	<b>100.0</b>	<b>8,564</b>	<b>7.3</b>	<b>116,544</b>	<b>100.0</b>
	<b>Owner Occupied Units by Tract</b>		<b>Households</b>					
			<b>HHs by Tract</b>		<b>HHs &lt; Poverty by Tract</b>		<b>HHs by HH Income</b>	
	#	%	#	%	#	%	#	%
Low	3,096	2.7	8,608	5.4	2,876	33.4	34,590	21.6
Moderate	18,277	15.8	31,685	19.8	4,692	14.8	25,063	15.7
Middle	44,760	38.7	61,703	38.6	4,996	8.1	29,926	18.7
Upper	49,458	42.8	57,786	36.2	2,451	4.2	70,203	44.0
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>115,591</b>	<b>100.0</b>	<b>159,782</b>	<b>100.0</b>	<b>15,015</b>	<b>9.4</b>	<b>159,782</b>	<b>100.0</b>
	<b>Total Businesses by Tract</b>		<b>Businesses by Tract and Revenue Size</b>					
			<b>Less than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue not Reported</b>	
	#	%	#	%	#	%	#	%
Low	594	3.5	525	3.4	67	5.3	2	2.0
Moderate	2,510	14.9	2,261	14.6	236	18.7	13	12.7
Middle	7,151	42.4	6,439	41.5	667	53.0	45	44.1
Upper	6,612	39.2	6,286	40.5	284	22.6	42	41.2
NA	6	0.0	1	0.0	5	0.4	0	0.0
<b>Total</b>	<b>16,873</b>	<b>100.0</b>	<b>15,512</b>	<b>100.0</b>	<b>1,259</b>	<b>100.0</b>	<b>102</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			91.9		7.5		0.6

\*NA-Tracts without household or family income as applicable

As previously noted, ACS data was updated in 2017 resulting in demographic differences between 2016 and 2017. Accordingly, the following information is based upon the updated survey data used for the 2017 analysis.

Based on 2015 ACS data, the assessment area’s total population increased to 448,660, while the median housing value decreased to \$231,769. The owner-occupancy rate for the assessment area declined to 62.2% but remained higher than the owner-occupancy rate for the entire MSA (55.4%) and the Commonwealth of Virginia (59.2%). The percentage of families living below the poverty level in the assessment area increased to 9.7% and remains similar to that of the overall MSA (9.5%) but now exceeds rate for the Commonwealth of Virginia (8.2%). The Virginia Beach-Norfolk-Newport News, VA-NC MSA median family income increased to \$73,000 during 2017. The following table includes pertinent demographic data for the assessment area based on the updated demographic data.

**Assessment Area Demographics**

<b>Virginia Beach-Norfolk-Newport News, VA</b> <i>(Based on 2015 ACS Data and 2017 D&amp;B Information)</i>								
<b>Income Categories*</b>	<b>Tract Distribution</b>		<b>Families by Tract</b>		<b>Families &lt; Poverty as a % of Families by Tract</b>		<b>Families by Family Income</b>	
	#	%	#	%	#	%	#	%
Low	12	11.1	8,000	6.8	2,536	31.7	24,201	20.6
Moderate	19	17.6	18,204	15.5	3,022	16.6	19,598	16.7
Middle	47	43.5	50,368	42.9	3,803	7.6	24,238	20.6
Upper	29	26.9	40,934	34.8	2,033	5.0	49,469	42.1
NA	1	0.9	0	0.0	0	0.0		
<b>Total</b>	<b>108</b>	<b>100.0</b>	<b>117,506</b>	<b>100.0</b>	<b>11,394</b>	<b>9.7</b>	<b>117,506</b>	<b>100.0</b>
	<b>Owner Occupied Units by Tract</b>		<b>Households</b>					
			<b>HHs by Tract</b>		<b>HHs &lt; Poverty by Tract</b>		<b>HHs by HH Income</b>	
	#	%	#	%	#	%	#	%
Low	3,813	3.5	12,091	7.4	3,899	32.2	35,880	22.0
Moderate	13,923	12.6	27,423	16.8	4,785	17.4	25,633	15.7
Middle	49,988	45.4	71,893	44.1	6,549	9.1	30,017	18.4
Upper	42,410	38.5	51,627	31.7	2,960	5.7	71,504	43.9
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>110,134</b>	<b>100.0</b>	<b>163,034</b>	<b>100.0</b>	<b>18,193</b>	<b>11.2</b>	<b>163,034</b>	<b>100.0</b>
	<b>Total Businesses by Tract</b>		<b>Businesses by Tract and Revenue Size</b>					
			<b>Less than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue not Reported</b>	
	#	%	#	%	#	%	#	%
Low	757	5.0	655	4.8	99	7.9	3	3.2
Moderate	2,106	14.0	1,850	13.5	246	19.7	10	10.8
Middle	7,125	47.5	6,387	46.7	694	55.6	44	47.3
Upper	5,011	33.5	4,771	35.0	204	16.4	36	38.7
NA	6	0.0	1	0.0	5	0.4	0	0.0
<b>Total</b>	<b>15,005</b>	<b>100.0</b>	<b>13,664</b>	<b>100.0</b>	<b>1,248</b>	<b>100.0</b>	<b>93</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			91.1		8.3		0.6

\*NA-Tracts without household or family income as applicable

As previously noted, FB added the cities of Norfolk and Virginia Beach to this assessment area beginning in January 2018, and the preceding table does not reflect the inclusion of these two cities. Consequently, the demographic data in the table is appropriate to use when evaluating the bank’s HMDA lending during 2017, but it is not appropriate to use when evaluating the bank’s small business data. Instead the following small business demographic data should be considered as it is based on the bank’s 2018 assessment area delineation and D&B data updated for 2018. The assessment area includes 52,137 businesses, of which 92.1% have revenues of \$1 million or less. In addition, 3.8% of are businesses are located in low-income census tracts, 20.5% are located in moderate-income census tracts, 39% are located in middle-income census tracts, 35.6% are located in upper-income census tracts, and 1.1% are located in census tracts that do not have an income designation.

Employment opportunities within the assessment area primarily consist of local and federal government, area school systems, and a diverse mix of healthcare, education, manufacturing, service, and tourism-related industries. The area's major employers include: Gwaltney of Smithfield (meat packing), U.S. Department of Defense, Sentara Healthcare, Wal-Mart stores, Anthem (health care), Science Applications International Corporation (military contractor), and local governments, including area school systems. Recent and historical periodic unemployment rates are included in the following table.

<b>Geographic Area</b>	<b>November 2016</b>	<b>November 2017</b>	<b>November 2018</b>	<b>November 2019</b>
Isle of Wight County, VA	4%	3.3%	2.6%	2.5%
City of Chesapeake, VA	4%	3.4%	2.7%	2.6%
City of Norfolk, VA	4.9%	4.1%	3.1%	3%
City of Portsmouth, VA	5.7%	4.7%	3.4%	3.5%
City of Suffolk, VA	4.4%	3.5%	2.8%	2.7%
City of Virginia Beach, VA	3.9%	3.2%	2.5%	2.4%
Commonwealth of Virginia	3.9%	3.3%	2.5%	2.4%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	4.4%	3.6%	2.8%	2.7%

As indicated in the table, area unemployment rates have trended downward since 2016. Unemployment rates generally approximate the rates for the Commonwealth of Virginia and in the MSA. However, the unemployment rate within the City of Portsmouth and the City of Norfolk remain elevated in relation to the other cities and counties in the assessment area.

A local economic development official was contacted during the evaluation to discuss local economic conditions and community credit needs. The contact noted an increased focus on redevelopment projects within the market. The individual contacted indicated that entrepreneurship training and related support programs represented opportunities for involvement by local financial institutions. The individual contacted stated that local financial institutions are actively involved within the community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

Within this assessment area, in 2017 the bank originated HMDA loans totaling \$2.5 million and small business loans totaling \$30.2 million during 2018. Accordingly, the bank's small business lending performance is given more weight than its HMDA lending performance when evaluating the bank's overall lending performance.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

FB's borrower distribution performance is considered excellent for HMDA lending and reasonable for small business lending. Overall, FB's performance is considered reasonable given the larger dollar volume of small business lending.

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

Virginia Beach-Norfolk-Newport News, VA (2017)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
<b>HMDA Totals</b>								
Low	2	13.3	129	7.8	895	6.1	94,217	2.9
Moderate	5	33.3	330	20.0	3,549	24.3	571,938	17.7
Middle	1	6.7	18	1.1	4,399	30.1	923,533	28.6
Upper	7	46.7	1,173	71.1	5,758	39.5	1,641,768	50.8
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>1,650</b>	<b>100.0</b>	<b>14,601</b>	<b>100.0</b>	<b>3,231,456</b>	<b>100.0</b>
Unknown	4		888		4,668		1,350,036	

*Percentages (%) are calculated on all loans where incomes are known*

In 2017, the bank’s level of lending to low-income borrowers (13.3%) lagged the percentage of low-income families within the assessment area (20.6%) but exceeded the percentage of aggregate lending to such borrowers (6.1%). FB’s lending to moderate-income borrowers (33.3%) exceeded both the percentage of moderate-income families (16.7%) and the percentage of the aggregate lending levels (24.3%). Overall, the bank’s performance during 2017 is considered excellent, and its 2016 performance is substantially similar.

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

Virginia Beach-Norfolk-Newport News, VA (2018)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	84	63.6	15,882	52.5	9,303	49.7	253,701	36.3
Over \$1 Million	48	36.4	14,359	47.5	NA	NA	NA	NA
Unknown	0	0.0	0	0.0	NA	NA	NA	NA
by Loan Size	Bank				Aggregate*			
\$100,000 or less	61	46.2	3,145	10.4	17,478	93.3	251,773	36.0
\$100,001-\$250,000	33	25.0	5,525	18.3	602	3.2	104,079	14.9
\$250,001-\$1 Million	38	28.8	21,570	71.3	655	3.5	342,812	49.1
<b>Total</b>	<b>132</b>	<b>100.0</b>	<b>30,240</b>	<b>100.0</b>	<b>18,735</b>	<b>100.0</b>	<b>698,664</b>	<b>100.0</b>

*\* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues*

D&B data from 2018 indicates that 92.1% of all local businesses have revenues that do not exceed \$1 million per year. According to 2018 aggregate small business data, 49.7% of reported loans were to businesses with annual revenues of \$1 million or less. The remaining portion of loans were to businesses that either had revenues exceeding \$1 million or had unknown revenues. As part of performance context, the aggregate data was also considered after excluding certain specialty lenders. After excluding these lenders, 56.1% of the remaining reported small business loans were to businesses having revenues of \$1 million or less. FB originated 63.6% of its small business loans within the assessment area to businesses with revenues of \$1 million or less. Given these contextual factors, the bank’s small business lending performance is considered reasonable.

**Geographic Distribution of Loans**

FB's geographic distribution performance is considered excellent for HMDA lending and reasonable for small business lending. Overall, FB's performance is considered reasonable given the larger dollar volume of small business lending.

**Distribution of HMDA Loans by Income Level of Census Tract**

Virginia Beach-Norfolk-Newport News, VA (2017)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(6) Home Purchase				(12,384)			
Low	0	0.0	0	0.0	438	3.5	67,516	2.2
Moderate	1	16.7	67	6.6	1,601	12.9	275,288	9.0
Middle	2	33.3	337	33.0	5,230	42.2	1,163,351	38.1
Upper	3	50.0	616	60.4	5,115	41.4	1,546,675	50.7
	(5) Refinance				(5,500)			
Low	1	20.0	58	9.4	197	3.6	27,481	2.2
Moderate	1	20.0	45	7.3	635	11.5	95,011	7.7
Middle	2	40.0	394	63.7	2,363	43.0	489,073	39.7
Upper	1	20.0	122	19.6	2,305	41.9	620,010	50.4
	(6) Home Improvement				(1,357)			
Low	0	0.0	0	0.0	70	5.2	1,673	2.2
Moderate	1	16.7	7	3.3	194	14.3	5,206	6.9
Middle	4	66.7	193	92.3	545	40.2	25,852	34.1
Upper	1	16.6	9	4.4	548	40.3	43,190	56.8
	(2) Multi-Family				(28)			
Low	0	0.0	0	0.0	4	14.3	14,164	6.4
Moderate	0	0.0	0	0.0	8	28.6	19,486	8.8
Middle	1	50.0	340	49.3	11	39.3	79,111	35.8
Upper	1	50.0	350	50.7	5	17.8	108,405	49.0
	HMDA Totals							
Low	1	5.3	58	2.3	709	3.7	110,834	2.4
Moderate	3	15.8	119	4.7	2,438	12.7	394,991	8.6
Middle	9	47.4	1,264	49.8	8,149	42.3	1,757,387	38.4
Upper	6	31.5	1,097	43.2	7,973	41.3	2,318,280	50.6
NA*	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>19</b>	<b>100.0</b>	<b>2,538</b>	<b>100.0</b>	<b>19,269</b>	<b>100.0</b>	<b>4,581,492</b>	<b>100.0</b>

NA\*-Tracts without household or family income as applicable

During 2017, the majority of HMDA loans reported by the aggregate lenders were for home purchases, while FB's HMDA lending volume was evenly distributed across the home purchase, refinance, and home improvement loan categories. Given the overall limited volume of multi-family housing loans within the assessment area by both the bank and the aggregate reporters, FB's performance in this lending category was given the least weight when considering its overall lending performance. Considering both demographic and aggregate proxies for demand, the bank's performance for refinance lending is considered excellent and its home purchase and improvement lending performance is reasonable. While its multi-family housing performance is very poor, the performance of this category of loans was given the least weight when considering FB's overall geographic distribution performance level, as previously noted.

On a combined basis, the bank's level of lending in low-income census tracts (5.3%) exceeded both the percentage of owner-occupied housing units located in such areas (3.5%) and the aggregate lending level (3.7%). Similarly, FB's level of lending in moderate-income census tracts (15.8%) also exceeded both the percentage of owner-occupied housing units located in such areas (12.6%), and the aggregate lending level (12.7%). Overall, the bank's performance is considered excellent, and its 2016 lending performance is similar.

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

Virginia Beach-Norfolk-Newport News, VA (2018)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	6	4.5	1,925	6.4	617	3.3	35,946	5.2
Moderate	14	10.6	2,761	9.1	3,726	20.0	169,032	24.3
Middle	60	45.5	14,435	47.7	6,962	37.4	272,402	39.2
Upper	52	39.4	11,120	36.8	6,975	37.6	202,198	29.2
NA*	0	0.0	0	0.0	315	1.7	14,767	2.1
<b>Total</b>	<b>132</b>	<b>100.0</b>	<b>30,241</b>	<b>100.0</b>	<b>18,595</b>	<b>100.0</b>	<b>694,345</b>	<b>100.0</b>

\*NA-Tracts without household or family income as applicable

Loans where the geographic location is unknown are excluded from this table.

The bank's level of small business lending in low-income census tracts (4.5%) exceeded the percentage of businesses located in such areas (3.8%) and the aggregate lending level (3.3%). Conversely, FB's level of lending in moderate-income census tracts (10.6%) significantly lagged the percentage of businesses in such areas (20.5%) and the aggregate lending level (20%). On a combined basis, the bank's performance is considered reasonable overall.

**Community Development Loans, Investments, and Services**

Discussions with an individual knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that local community development opportunities are reasonably available within the assessment area. The bank faces no constraints in providing community development loans, investments, or services consistent with its capacity and available opportunities.

During the review period, FB extended the following eight community development loans totaling approximately \$4.7 million that benefit the Virginia Beach-Norfolk-Newport News, VA assessment area.

- Three loans to area businesses totaling \$2.3 million that support the creation and/or retention of approximately 64 jobs. Most of the jobs created and retained benefit low- or moderate-income people.
- Two SBA 504 loans totaling \$1.7 million that support economic development including job creation within the assessment area.
- Two loans totaling \$579,803 for affordable housing targeted to area low- and moderate-income people.
- One loan totaling \$114,750 to an organization that provides job training skills and other social services to area low-income people.

As of the date of this evaluation, FB held the following qualified investments and made charitable donations that supported community activities within the assessment area.

- The bank holds two qualified investments through the CRA Qualified Investment Fund totaling approximately \$530,988 that benefits cities within the assessment area.
- Charitable contributions totaling \$165,147 were made that support local organizations that provide qualified community development services.

- The bank maintains a \$500,000 investment in the Senior Housing Crime Prevention Foundation. The Foundation provides community development services targeted to low- and moderate-income elderly residents within the assessment area. Based on the structure of the investment agreement, a portion of the income from the investment is utilized by the Foundation to fund its programs.

Of the bank's six branches within the assessment area, one (16.7%) is located in a moderate-income census tract. Systems for delivering retail-banking services appear effective and are accessible to all portions of the assessment area. FB also offers free and low-cost checking accounts, which can benefit low- and moderate-income customers.

Since its previous evaluation, FB and its employees volunteered their time and provided financial expertise to organizations that provide community development services targeted to area low- and moderate-income residents, affordable housing, and economic development. Bank employees and board members provided financial expertise by either serving as a director or board member to the following organizations.

- Catholic Charities of Eastern Virginia
- Economic Development Authority of Isle of Wight
- Pruden Foundation
- Birdsong Trust
- Suffolk Meals on Wheels
- Isle of Wight Christian Outreach

As previously mentioned, the bank also participated in several qualified community development activities that benefit the statewide or broader regional area that include this assessment area. Overall, the bank has demonstrated an adequate level of responsiveness to local community development needs through its lending and investment activities and support of area organizations that facilitate community development.

**NONMETROPOLITAN STATEWIDE AREA**

*(If none of the assessment areas within the nonmetropolitan statewide area were reviewed using full-scope review)*

**DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NONMETROPOLITAN STATEWIDE AREA**

The Franklin, VA NonMSA assessment area was reviewed using the limited review examination procedures. Information detailing the composition of the assessment area, including selected demographic data, is included in Appendix A of this report.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN STATEWIDE NONMETROPOLITAN ASSESSMENT AREA**

Facts and data reviewed for the assessment area, including performance and demographic information, can be found in Appendix A of this evaluation. Conclusions regarding performance, which did not impact the institution’s overall rating, is included in the following table. The conclusions convey whether performance in an assessment area was generally below, consistent with, or exceeded the institution's overall rating.

<b>Assessment Area</b>	<b>Lending Test</b>	<b>Community Development Test</b>
Franklin, VA NonMSA	Below	Consistent



**CRA APPENDIX A  
LIMITED REVIEW TABLES**

**Franklin, VA NonMSA Assessment Area**

This assessment area is located in southeastern Virginia and includes all of Southampton County and the City of Franklin, Virginia. FB operates one full-service branch within this assessment area accounting for approximately 9.3% of its total deposit volume. Based on the 2015 ACS data, this assessment area includes no low-, one moderate-, three middle-, and two upper-income census tracts. The assessment area also includes one census tract that does not have a median family income designation.

**Performance Test Data for Franklin, VA NonMSA Assessment Area**

**Limited Review Lending Table**

Franklin, VA NonMSA (2017)								
Income Categories	Bank		Aggregate	Demographic	Bank		Aggregate	Demographic
	#	%	%	%	#	%	%	%
	<b>Home Purchase</b>				<b>Home Improvement</b>			
<i>Geographic</i>	<b>(0)</b>				<b>(1)</b>			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	1.6	6.1	0	0.0	9.3	6.1
Middle	0	0.0	52.4	54.6	0	0.0	54.7	54.6
Upper	0	0.0	46.0	39.3	1	100.0	36.0	39.3
	<b>Refinance</b>				<b>Multi-Family</b>			
<i>Geographic</i>	<b>(0)</b>				<b>(0)</b>			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	5.7	6.1	0	0.0	0.0	6.1
Middle	0	0.0	56.8	54.6	0	0.0	0.0	54.6
Upper	0	0.0	37.4	39.3	0	0.0	0.0	39.3
	<b>HMDA Totals</b>				<b>Consumer</b>			
<i>Geographic</i>	<b>(1)</b>				<b>(NA)</b>			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	4.1	6.1	NA	NA	NA	NA
Middle	0	0.0	54.3	54.6	NA	NA	NA	NA
Upper	1	100.0	41.6	39.3	NA	NA	NA	NA
<i>Borrower</i>	<b>(1)</b>				<b>(NA)</b>			
Low	1	100.0	4.2	20.5	NA	NA	NA	NA
Moderate	0	0.0	19.0	18.3	NA	NA	NA	NA
Middle	0	0.0	34.5	16.6	NA	NA	NA	NA
Upper	0	0.0	42.3	44.6	NA	NA	NA	NA
	<b>Small Business (2018)</b>				<b>Small Farm</b>			
<i>Geographic</i>	<b>(30)</b>				<b>(NA)</b>			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	9.4	10.7	NA	NA	NA	NA
Middle	20	66.7	50.0	41.6	NA	NA	NA	NA
Upper	10	33.3	40.6	47.6	NA	NA	NA	NA
<i>Revenue</i>								
Busn/ Farms with revenues <=\$1 M	19	63.3	51.7	90.0	NA	NA	NA	NA

*Geographic ( ) represents the total number of bank loans for the specific Loan Purpose where geography is known  
Borrower ( ) represents the total number of bank loans for the specific Loan Purpose where income is known  
NA represents no activity in the income category*

The bank's HMDA lending performance in 2016 is similar to its performance in 2017.

### **Community Development Loans, Investments, and Services**

Since the previous evaluation the bank originated two qualified community development loans totaling approximately \$1.7 million.

During the evaluation period, FB and its employees volunteered their time and provided financial expertise to the following organizations that provide community development services targeted to area low- and moderate-income residents and economic development.

- Franklin Business Center
- Franklin Southampton Charities
- Franklin Southampton Economic Development, Inc.

**CRA APPENDIX B**

**LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA**

The following table includes the distribution of branch offices as well as loan and deposit volume in each assessment area. Branch information is current as of the evaluation date, and loan volume includes all HMDA and small business loans considered in the evaluation. Deposit volume includes all bank deposits and is current as of June 30, 2019.

Assessment Area	Loan Volume				Branches		Deposit Volume	
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Virginia Beach-Norfolk-Newport News, VA	167	81.9%	\$39,190	87.7%	6	85.7%	\$334,545	90.7%
Franklin, VA NonMSA	37	18.1%	\$5,513	12.3%	1	14.3%	\$34,312	9.3%
<b>TOTAL</b>	204	100%	\$44,703	100%	7	100%	\$368,857	100%

**CRA APPENDIX C  
BRANCHING ACTIVITY**

<b>ASSESSMENT AREA</b>	<b>DATE</b>	<b>ADDRESS</b>	<b>CITY</b>	<b>STATE</b>	<b>ZIP</b>	<b>ACQUIRED/ CLOSED</b>	<b>TRACT INCOME LEVEL</b>
VIRGINIA BEACH-NORFOLK- NEWPORT NEWS, VA	12/19/19	1403 GREENBRIER PKWY	CHESAPEAKE	VA	23320	CLOSED	MIDDLE
VIRGINIA BEACH-NORFOLK- NEWPORT NEWS, VA	12/19/19	821 BATTLEFIELD BLVD. N.	CHESAPEAKE	VA	23320	OPENED	MIDDLE

## CRA APPENDIX D

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - (A) Rates of poverty, unemployment, and population loss; or
  - (B) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full-scope review:** Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.