

PUBLIC DISCLOSURE
September 22, 1997
COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Caroline County Bank
05240940
P. O. Box 70
Greensboro, Maryland 21639

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

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| <p>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> |
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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 Caroline County Bank, Greensboro, Maryland, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of September 22, 1997. The agency evaluates performance in the assessment area as delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Caroline County Bank serves its assessment area through direct lending and offers a variety of credit products. A significant majority of the bank's loans were originated within the assessment area. The distribution of lending throughout the market is considered reasonable with loans originated in block numbering areas (BNAs) of various income levels. Furthermore, the institution's lending to low- and moderate-income individuals exceeds expectations relative to area demographics while the proportion of credit extensions to businesses with gross annual revenues of less than \$1 million indicates a clear responsiveness to small business needs. Participation in qualified community development investments has been appropriate. Delivery systems and the bank's location are considered readily accessible, and participation in community development services is considered reasonable.

The following table indicates the performance level of The Caroline County Bank with respect to the lending, investment, and service tests.

| <u>The Caroline County Bank</u> | | | |
|--|---------------------------|------------------------|---------------------|
| PERFORMANCE LEVELS | PERFORMANCE TESTS | | |
| | LENDING TEST * | INVESTMENT TEST | SERVICE TEST |
| Outstanding | | | |
| High Satisfactory | X | X | X |
| Low Satisfactory | | | |
| 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

The Caroline County Bank operates one office in the Town of Greensboro, Maryland. The institution's parent holding company, First Virginia Banks, Inc., is located in Falls Church, Virginia. As of June 30, 1997, the bank had \$29 million in assets, of which 56% were loans. The loan portfolio as of this date was comprised of 79% real estate secured (including consumer and business), 9% consumer, 7% commercial/agricultural, and 5% other. The Caroline County Bank's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

The bank primarily serves its assessment area through direct lending and offers a variety of credit products. During the six-quarter period ending June 1997, the quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Maryland and of similar asset size to The Caroline County Bank ranged from 74% to 81%. The bank's average loan-to-deposit ratio for the previous six quarters is 65% and is considered reasonable 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 loans for small business, commercial, consumer, residential mortgage, home improvement, residential construction, and agricultural purposes. Long-term mortgages and Government sponsored loans are offered through First Virginia Mortgage Company and First General Mortgage Company. The following chart depicts the bank's lending activity since January 1, 1996 by number, dollar amount, and percentage for the types of loans listed. The table also includes affiliate lending activity within the Caroline County assessment area.

| The Caroline County Bank Loan Originations 1-1-96 to 6-30-97 | | | | |
|--|-----------------------|-----------------------|----------------------------|-----------------------|
| Description | Total Number of Loans | Percentage of Lending | Total Dollar Amount (000s) | Percentage of Lending |
| Small Business/ Small Farm* | 53 | 19% | \$2,632 | 47% |
| Home Equity | 12 | 4% | \$312 | 6% |
| Motor Vehicle | 71 | 25% | \$847 | 15% |
| Other Consumer Secured | 100 | 36% | \$862 | 15% |
| Other Consumer Unsecured | 25 | 9% | \$61 | 1% |
| Mortgage | 20 | 7% | \$925 | 16% |
| Total | 281 | 100% | \$5,639 | 100% |

* Information about these loans is required to be collected by the institution

As illustrated, excluding mortgage loans, the majority of loan originations (74%) was for consumer purposes. Business and agricultural lending also represents a significant portion of the bank's lending activity.

The following table depicts lending inside and outside of the assessment area, but does not include affiliate lending.

Comparison of Credit Extended Inside and Outside the Assessment Area

| | Small Business/Farm* | | Consumer | | Mortgage | | Total | |
|-------------------------|----------------------|---------|----------|---------|----------|---------|---------|---------|
| | Inside | Outside | Inside | Outside | Inside | Outside | Inside | Outside |
| Number of Loans | 36 | 15 | 142 | 22 | 9 | 2 | 187 | 39 |
| Percentage of Loans | 71% | 29% | 87% | 13% | 82% | 18% | 83% | 17% |
| Amount of Loans (000's) | \$1,774 | \$818 | \$1,487 | \$126 | \$260 | \$50 | \$3,521 | \$994 |
| Percentage of Amount | 68% | 32% | 92% | 8% | 84% | 16% | 78% | 22% |

* Information about these loans is required to be collected by the institution.

As depicted above, a majority of the number (83%) and dollar amounts (78%) of total loans have been provided to area residents. The percentage of loans made within the assessment area is considered responsive to community credit needs.

The geographic distribution of loans is discussed in detail later in this evaluation and is considered reasonable with loan penetration in the assessment area's moderate-income geography. The bank's lending to low- and moderate-income individuals and to businesses with revenues less than \$1 million exceeds expected performance in relation to area demographics. In addition, the institution has demonstrated a responsiveness to the credit needs of its market area through community development lending and some product flexibility.

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 high satisfactory consistent with its resources and local opportunities. A qualified investment in a state issued bond promoting affordable housing was noted, as were several qualified donations.

SERVICE TEST

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

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 identified. 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 THE INSTITUTION'S OPERATIONS IN CAROLINE COUNTY ASSESSMENT AREA:

The bank's assessment area encompasses the following five of the seven BNAs which constitute Caroline County, Maryland:

- 9550.00
- 9551.98
- 9552.98
- 9553.00
- 9554.00

One of these BNAs has been designated as moderate-income, while the other four are middle-income. According to 1990 census data, the assessment area has a population of 19,116 and a median housing value of \$78,700. The owner-occupancy rate of 69% for the area is higher than the average rate for nonmetropolitan areas of Maryland (52%). The 1997 median family income for nonmetropolitan areas of the state is \$43,100.

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

| | Low-Income | Moderate-Income | Middle-Income | Upper-Income | Total |
|---|------------|-----------------|---------------|--------------|-------|
| Percentage of Area Families by Income Level | 21% | 21% | 23% | 35% | 100% |
| Percentage of Population Residing in Census Tracts by Income Level of Tract | 0% | 15% | 85% | 0% | 100% |

Caroline County is located on Maryland's Eastern Shore midway between the state's northern and southern borders. The county is bordered on the west by Talbot County, Maryland and on the east by the State of Delaware. Caroline County is primarily rural, and the local economy is dominated by a few large farming enterprises. Employment opportunities in the industrial sector are somewhat limited as few manufacturing employers are located within the county. Many residents commute to Dover, Delaware and Easton, Maryland for jobs. Area employers include Kraft General Foods and International Playtex, located in Dover, and Easton Memorial Hospital and Black and Decker, Inc., located in Easton. The unemployment rate for Caroline County as of August 1997 is 3.4% compared to a statewide jobless rate of 4.3%.

A community contact was made with a local public official during the examination to further assist in evaluating the bank's CRA performance. The contact indicated that although additional employment opportunities are needed, local banks were effectively meeting the credit needs of the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN CAROLINE COUNTY ASSESSMENT AREA:

LENDING TEST

Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables represent the institution's lending within the assessment area according to the income level of the BNA. Affiliate lending within the assessment area is also represented in the tables. As previously mentioned, the assessment area contains only moderate- and middle-income geographies.

Distribution of Small Business/Farm Loans by Income Level of the BNA

| | Moderate-Income | Middle-Income | Total |
|------------------------------|-----------------|---------------|---------|
| Total Number of Loans | 6 | 32 | 38 |
| Percentage of Total Loans | 16% | 84% | 100% |
| Total Amount of Loans (000s) | \$216 | \$1,598 | \$1,814 |
| Percentage of Total Loans | 12% | 88% | 100% |

Distribution of Consumer Loans by Income Level of the BNA

| | Moderate-Income | Middle-Income | Total |
|------------------------------|-----------------|---------------|---------|
| Total Number of Loans | 30 | 134 | 164 |
| Percentage of Total Loans | 18% | 82% | 100% |
| Total Amount of Loans (000s) | \$339 | \$1,382 | \$1,721 |
| Percentage of Total Loans | 20% | 80% | 100% |

Distribution of Mortgage Loans by Income Level of the BNA

| | Moderate-Income | Middle- Income | Total |
|---------------------------------|-----------------|----------------|-------|
| Total Number of Loans | 4 | 14 | 18 |
| Percentage of Total Loans | 22% | 78% | 100% |
| Total Amount of Loans (000s) | \$261 | \$614 | \$875 |
| Percentage of Total Loans | 30% | 70% | 100% |

Overall, 18% (40/220) of bank and affiliate loan originations within the assessment area were extended within moderate-income BNAs. Given that 15% of the assessment area population resides in such BNAs, the geographic distribution of lending is considered reasonable.

Borrower's Profile

The following charts reflect the distribution of consumer and small business/farm loans extended within the assessment area by income level of the borrower and to businesses of different sizes from January 1, 1996 through June 30, 1997. Affiliate lending is included in the tables.

Distribution of Consumer Loans by Income Level of Borrower

| | Low- Income | Moderate- Income | Middle- Income | Upper- Income | Total |
|----------------------------------|----------------|---------------------|-------------------|------------------|---------|
| Total Number of Loans | 33 | 26 | 26 | 27 | 112 |
| Percentage of Total Loans | 30% | 23% | 23% | 24% | 100% |
| Total Amount of Loans (000's) | \$487 | \$251 | \$250 | \$364 | \$1,352 |
| Percentage of Total Amount | 36% | 19% | 18% | 27% | 100% |

As illustrated above, the volume of lending by the bank and affiliates (53%) to low- and moderate-income borrowers exceeds the percentage of such families (42%) residing within the assessment area. Of the six mortgage loans, for which income information was available, extended within the assessment area from January 1, 1996 through June 30, 1997, one was to moderate-income borrower. The remaining five were made to middle-income and upper-income borrowers.

In addition, The Caroline County Bank is an approved FHA Title I home improvement lender. This program has less stringent underwriting criteria than traditional financing and requires little or no equity in the property to be improved. No loans have been extended under this program since the previous evaluation.

The table below depicts the bank's lending to businesses and farms of varying sizes. Affiliate lending is also represented below.

Distribution of Lending by Loan Amount and Size of Business or Farm

| | \$0 - \$100,000 | | >\$100,000 - \$250,000 | | >\$250,000 | | Total | |
|------------------------------|-----------------|-----|------------------------|----|------------|----|-------|------|
| Total Revenues ≤ \$1 Million | 31 | 88% | 2 | 6% | 0 | 0 | 33 | 94% |
| Total Revenues > \$1 Million | 1 | 3% | 0 | 0% | 1 | 3% | 2 | 6% |
| Totals | 32 | 91% | 2 | 6% | 1 | 3% | 35 | 100% |

As presented above, 94% (33/35) of the small business (loans ≤ \$1 million) and small farm (loans ≤ \$500 thousand) loans in the assessment area were provided to businesses and farms with gross annual revenues of less than \$1 million. Furthermore, 88% (31/35) of these loans were for amounts of \$100,000 or less indicating a responsiveness to the credit needs of local small businesses and farms. In addition, the bank continues to offer Small Business Administration (SBA) loans to qualifying enterprises. No SBA loans have been originated since the previous evaluation.

Given the product lines offered by the institution and its affiliates, the distribution to borrowers of different incomes and businesses of different sizes is considered favorable and demonstrates management's willingness to meet the credit needs of all segments of the local community.

Community Development Loans

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

- A loan to Caroline County for a building to consolidate health department agencies. Prior to this credit extension, social service agencies were scattered throughout the county in various rental spaces. In addition to housing the Caroline County Health Department, the facility will also accommodate several agencies which target services to low-income residents of the county. The building will serve as a central location to agencies that handle HUD Section 8 housing assistance as well as food, fuel, and income assistance.

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

INVESTMENT TEST

The bank has invested \$10,000 in Maryland State Housing Bonds, which are the primary source of funding for the Maryland Department of Housing and Community Development. The organization was established to provide affordable housing to low-income families of Maryland.

The Caroline County Bank has also provided donations totaling \$3,375 to various community service organizations. The institution's level of qualified investments is considered reasonable.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. The branch is equipped with an Automated Teller Machine (ATM) which provides 24-hour nationwide network access. Telephone and mail banking services are also available and provide customers with 24-hour accessibility.

Branch Locations and Hours of Operation

The branch location and business hours are considered convenient and meet the needs of the assessment area. Although no branches have been closed since the previous evaluation, a branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. Hours of operation are considered convenient with Saturday hours offered at the drive-through window. In addition, the drive-through window is open Monday through Friday until 7:00 p.m., with the lobby open until 7:00 p.m. on Fridays.

Community Development Services

Technical assistance is provided by a bank board member to the University of Maryland's Cooperative Extension Service. The board member volunteers as a counselor to aid financially distressed local residents in developing payment plans with creditors, creating household budgets, and learning basic bookkeeping and financial skills. A bank employee also participated as a volunteer counselor in this program until April of 1997.

The institution also provides Government check cashing for noncustomers at no charge and offers free checking accounts to senior citizens and college students. The Bank of Caroline County's provision of community development services is considered reasonable.