

PUBLIC DISCLOSURE
April 24, 2000
COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank-Richmond
108522
P. O. Box 28189
Richmond, Virginia 23228

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-Richmond, Richmond, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of April 24, 2000. 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 its lending activities and offers a variety of credit products. A substantial majority of the institution's loans were extended in the assessment area and the distribution of lending throughout the area is considered adequate. Furthermore, loans have been extended to borrowers of varying incomes and to businesses of different sizes. Delivery systems and branch locations are considered readily accessible to all segments of the assessment area. Participation in qualified community development investments is considered adequate. 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-Richmond with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	<u>F & M Bank-Richmond</u>		
	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

F & M Bank-Richmond is headquartered in Richmond, Virginia, and operates 15 offices throughout the City of Richmond and Henrico, Hanover, and Chesterfield Counties, Virginia. The institution is a subsidiary of F & M National Corporation, a multi-bank holding company located in Winchester, Virginia. On April 1, 1998, F & M Bank-Richmond acquired Peoples Bank of Virginia, an \$80 million institution located in Chesterfield County. As of December 31, 1999, the bank held \$281 million in assets

of which 58% were loans and 32% were securities. The loan portfolio as of this date consisted of 18% residential real estate secured, 59% other real estate secured (including farmland, development, and nonresidential property), 16% commercial, 6% consumer, and 1% other. Since the previous examination in July 1997, assets, loans, and deposits have increased by 67%, 58%, and 64%, respectively. Much of this growth is attributable to the bank's merger with Peoples Bank of Virginia and the opening of two additional branches. The bank's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

Lending Activity

The institution primarily serves its markets through lending and offers a variety of credit products. During the ten-quarter period ending December 31, 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-Richmond ranged from 73% to 79%. The bank's loan-to-deposit ratio as of December 31, 1999 was 65% and averaged 63% during the same ten-quarter period noted above. This level of lending is considered responsive to area loan demand given its size, location, and financial capacity.

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

F & M BANK-RICHMOND LOAN ORIGINATIONS (JULY 1997 THROUGH DECEMBER 1999)				
Loan Type	Total Loans	Percentage of Lending	Total Dollar Amount (000's)	Percentage Of Lending
REAL ESTATE HOME PURCHASE *	87	3%	\$7,949	5%
REAL ESTATE HOME REFINANCE *	61	2%	\$3,902	2%
REAL ESTATE HOME IMPROVEMENT *	78	3%	\$1,467	1%

REAL ESTATE MULTIFAMILY *	8	<1%	\$4,457	3%
SMALL BUSINESS *	929	37%	\$94,235	57%
SMALL BUSINESS R/E SECURED	40	2%	\$5,373	3%
CONSUMER MOTOR VEHICLE	584	23%	\$7,086	4%
HOME EQUITY	141	6%	\$3,924	3%
OTHER SECURED CONSUMER	410	16%	\$32,345	20%
OTHER UNSECURED CONSUMER	195	8%	\$3,612	2%
TOTALS	2,533	100%	\$164,350	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, equipment, start up, and working capital purposes. The bank's mortgage products, which accounted for 8% of the volume and 11% 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). The bank does not offer long-term residential mortgage loans. However, F & M Bank has established a relationship with a large mortgage company and has referred 46 loans since January 1998. Consumer loans are primarily provided to accommodate the needs of new and existing business consumers. A considerable portion of the other consumer secured loans was to individuals for the construction of residential real estate. In many instances, permanent financing for these loans is obtained through an arrangement with a third party mortgage company.

Assessment Area Concentration

F & M Bank-Richmond's volume of small business, consumer, and HMDA lending from July 1997 to December 1999 is represented in the following table by number and dollar amounts.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Small Business/Farm		Residential Real Estate		Consumer		Total	
	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	914	55	216	18	1,213	117	2,343	190
Percentage of Loans	94%	6%	92%	8%	91%	9%	93%	7%
Amount of Loans (000's)	\$95,279	\$4,329	\$15,675	\$2,100	\$41,556	\$5,411	\$152,510	\$11,840
Percentage of Amount	96%	4%	88%	12%	89%	11%	93%	7%

As depicted above, a substantial majority of the number (93%) and dollar amounts (93%) of the analyzed loans have been provided to area residents. This level of lending in the bank's market area is considered highly responsive to community credit needs.

A detailed analysis of the lending distribution by business revenues and borrower income is discussed later in this evaluation. In general, the level of lending to low- and moderate-income borrowers and to businesses and farms with revenues of \$1 million or less is typically consistent with or below the proxies used to estimate demand. Loan penetration among various geographies is considered adequate.

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

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated high satisfactory. Qualified community development investments include several Virginia Housing Development Authority bonds and 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. Additionally, a branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. The bank's offerings of community development services are 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 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 RICHMOND ASSESSMENT AREA:

The bank's assessment area includes Henrico, Hanover, and Chesterfield Counties, the City of Richmond, and census tract 5001.00 in Powhatan County. This area is part of the Richmond Metropolitan Statistical Area (MSA) and contains 203 census tracts, of which 190 are populated. Of the populated geographies, 18 are low-income, 41 are moderate-income, 83 are middle-income, and 48 are upper-income. According to the 1990 census data, the market has a population of 699,674 and a median housing value of \$81,996. The owner-occupancy rate for the assessment area is 60%, which approximates the rate for the MSA (61%) and for the Commonwealth of Virginia (61%). The assessment area's poverty rate of 7.1% closely corresponds to the 7.7% poverty rate for the state. The 1998 and 1999 median family incomes for the Richmond MSA are \$52,600 and \$57,400, respectively.

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 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	18%	18%	24%	40%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	6%	19%	44%	31%	100%
Percentage of Owner-Occupied Units by Income Level of Tract	3%	13%	47%	37%	100%
Percentage of Families Below Poverty Level by Income of Tract	43%	13%	4%	2%	N/A

The local economy is characterized by a strong industrial base and economic structure. Employment opportunities are diversified among manufacturing, government, retail/wholesale trade, and service industries. Major employers for the area include Philip Morris USA, Circuit City, Columbia/HCA Healthcare, Capital One Financial Corporation, and Dominion Resources. The unemployment rates as of February 2000 ranged from a low of 1.5% for Hanover County to a high of 2.9% for the City of Richmond. The jobless rate for Virginia is 2.8%.

A community contact was made with a local government official to further assist in evaluating the bank's CRA performance. According to the contact, small business financing for minorities is a major credit need within the City of Richmond.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE RICHMOND MSA ASSESSMENT AREA:

LENDING TEST

Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables include small business, HMDA, and consumer loans extended from July 1997 to December 1999. Area demographics, market aggregate information, and June 1999 Dun & Bradstreet (D & B) business data are used as proxies for demand when evaluating the bank's penetration into geographies of different income levels.

DISTRIBUTION OF SMALL BUSINESS LOANS BY INCOME LEVEL OF TRACT - RICHMOND MSA ASSESSMENT AREA				
Tract Income Level	#	Percentage	\$(000s)	Percentage
Low-Income	40	5%	\$3,596	4%
Moderate-Income	100	11%	\$10,113	11%
Middle-Income	405	44%	\$41,494	43%
Upper-Income	369	40%	\$40,076	42%
Totals	914	100%	\$95,279	100%

The bank's small business loan penetration in low- and moderate-income geographies is 16%. A review of the 1998 small business aggregate data revealed a 9% penetration of total loan volume in low-income areas and a 15% penetration in moderate-income areas. Further, D & B information shows that 7% of all commercial entities are located in low-income geographies and 16% in moderate-income geographies. The bank's penetration of business loans into low- and moderate-income census tracts is slightly lower than both aggregate and industry data. The bank has a branch office located in downtown Richmond that is situated near several low- and moderate-income geographies that are primarily occupied by commercial entities. Bank management indicated that this branch has recently hired a new loan officer who has instituted an active call program for local businesses. Management is anticipating that this increased involvement in the area will be reflected in the bank's lending activity for year 2000.

DISTRIBUTION OF HMDA LOANS BY INCOME LEVEL OF TRACT - RICHMOND MSA ASSESSMENT AREA				
Tract Income Level	#	Percentage	\$(000s)	Percentage
Low-Income	12	5%	\$959	6%
Moderate-Income	47	22%	\$4,418	28%
Middle-Income	90	42%	\$5,287	34%
Upper-Income	67	31%	\$5,011	32%
Totals	216	100%	\$15,675	100%

The distribution of HMDA lending (27%) in low- and moderate-income census tracts significantly exceeds the proportion of owner-occupied units (3% in low and 13% in moderate) located within these geographies. The bank's HMDA lending is also slightly higher than the market aggregate. Specifically, aggregate data revealed a 2% and 9% penetration of loan volume in low-income and moderate-income tracts, respectively. The aggregate data includes F & M Bank-Richmond and all reporting institutions that originated HMDA reportable loans within the bank's assessment area for 1998.

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF TRACT - RICHMOND MSA ASSESSMENT AREA				
Tract Income Level	#	Percentage	\$(000s)	Percentage
Low-Income	5	1%	\$59	<1%
Moderate-Income	38	3%	\$1,236	3%
Middle-Income	548	45%	\$15,107	36%
Upper-Income	622	51%	\$25,154	61%
Totals	1,213	100%	\$41,556	100%

Of the 1,213 consumer loans extended within this assessment area, only 4% were in low- and moderate-income geographies. This level of lending is significantly less than the percentage of population (6% in low-income and 19% in moderate-income) residing in such areas. The low volume of consumer lending in low- and moderate-income census tracts can be attributed in part to the bank's business strategy, as well as to the number and location of branch offices. Of the low- and moderate-income geographies in the assessment area, 79% are in the City of Richmond, most of which are not within close proximity to a bank office. The bank has two offices within the City of Richmond, one of which is adjacent to low- and moderate-income geographies that contain no or few families. For example, two tracts, 303.00 and 306.00 have no families. The tract containing the branch and the five additional contiguous tracts have only 722 total families.

Using the various proxies to estimate demand, the bank's geographic lending distribution (including small business, consumer, and HMDA loans) is considered adequate 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 small business, HMDA, and consumer loans extended in the assessment area by income level of the borrower and to businesses of different sizes.

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	425	47%	66	7%	72	8%	563
Total Revenues > \$1 Million	247	27%	76	8%	28	3%	351	38%
Totals	672	74%	142	15%	100	11%	914	100%

Based on demographic data from D & B, 86% (18,284/21,346) of local businesses have revenues less than \$1 million per year. According to 1998 aggregate small business data, at least 46% 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, 62% (563/914) of the bank's total small business loans were to entities with revenues of \$1 million or less and 47% of these loans were in amounts of \$100,000 or less. This level of lending appears higher than the aggregate data and demonstrates the bank's willingness to meet the credit needs of local small businesses.

DISTRIBUTION OF HMDA LOANS BY INCOME LEVEL OF BORROWER – RICHMOND MSA ASSESSMENT AREA				
Borrower Income Level	#	Percentage	\$(000s)	Percentage
Low-Income *	16	9%	\$224	2%
Moderate-Income *	24	13%	\$818	8%
Middle-Income *	42	22%	\$1,780	17%
Upper-Income *	105	56%	\$7,491	73%
Total Where Income Reported	187	100%	\$10,313	100%
Total Income Unknown **	29	13%	\$5,362	34%
Totals - All Loans	216		\$15,675	

* Percentages based on loans where income reported.

** Percentages based on all reported loans.

The percentage of HMDA loans to low- and moderate-income borrowers (22%) is lower than the percentage of such families

(18% in low-income and 18% in moderate-income) in the assessment area. This level of lending is also lower 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, 10% were to low-income borrowers and 23% to moderate-income borrowers.

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF BORROWER				
- RICHMOND MSA ASSESSMENT AREA				
Borrower Income Level	#	Percentage	\$(000s)	Percentage
Low-Income *	174	15%	\$1,400	4%
Moderate-Income *	236	20%	\$3,190	8%
Middle-Income *	240	20%	\$5,078	13%
Upper-Income *	522	45%	\$28,929	75%
Total Where Income Reported	1,172	100%	\$38,597	100%
Total Income Unknown **	41	3%	\$2,959	7%
Totals - All Loans	1,213		\$41,556	

* Percentages based on loans where income reported.

** Percentages based on all reported loans.

As illustrated above, the percentage of consumer loans to low- and moderate-income borrowers (35%) closely corresponds to the proportion of such families (36%) in the assessment area.

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 reasonable.

Community Development Loans

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

A line of credit to the Richmond Economic Development Corporation to provide funding for training and small business financing for programs through the Micro Enterprise Program. This program promotes entrepreneurs and small business creation and growth. The Richmond Economic Development Corporation is a non-profit organization that provides community and economic development in the City of Richmond's three enterprise zones.

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

INVESTMENT TEST

Since the previous evaluation, the bank has purchased nine Virginia Housing Development Authority (VHDA) bonds totaling over \$3.6 million. The VHDA is a self-supporting, independent agency of the Commonwealth that serves as a public mortgage lending institution. The purpose of the Authority is to facilitate the housing needs of low- and moderate-income individuals and families. Bond proceeds are used to finance single family and multifamily mortgages throughout Virginia, including the bank's assessment areas. Other qualified investments in this assessment area include donations for various nonprofit organizations. The contributions were to organizations that primarily benefit low- and moderate-income people. Overall, the level of qualified investments for this institution is rated high satisfactory.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of this assessment area. All 15 of the bank's branches maintain automated teller machines (ATMs), one of which is located within a moderate-income census tract. The ATM locations provide local residents with 24-hour nationwide network access. In addition, seven cash dispensing machines are available to local residents. Telephone banking services also provide customers with 24-hour accessibility. Additionally, a bank by mail program is offered by the institution, which further enhances the bank's delivery system.

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 15 full-service offices in the assessment area, of which one is located in a moderate-income area. Branches generally are open Monday through Friday from 9:00 a.m. until 6:00 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. As mentioned previously, the bank merged with Peoples Bank of Virginia on April 1, 1998, which added four locations to the bank's existing branch system. As a result of the merger, the bank closed an office on Iron Bridge Road in Chesterfield County due to duplication of services. In addition, F & M Bank opened two new branches in Chesterfield and Henrico Counties. In June of 1999, the bank was unexpectedly forced to relocate its downtown Richmond office. The old office had been located in a low-income census tract; the new location is situated

in an adjacent middle-income geography.

Community Development Services

The bank is involved in a variety of community services. Specifically, a branch manager serves as Treasurer for Habitat for Humanity, which provides housing for low- and moderate-income individuals. In addition, a member of senior management continues to serve on the Board of Supervisors for the James River Development Corporation. This individual also serves on the Loan Committee for this organization. Other bank employees are also involved on the Board of Directors for Big Brothers and Big Sisters and the Jefferson Davis Association, which promotes business development and revitalization in an enterprise zone. Furthermore, bank personnel routinely provide credit counseling and other assistance to many low- and moderate-income individuals in applying for and understanding credit. The institution's array of community development services is considered responsive to area needs.