

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Atlantic Bank
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Ocean City, Maryland 21801

Federal Reserve Bank of Richmond
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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 Atlantic Bank, Ocean City, Maryland, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency, as of June 21, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

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

The bank primarily serves its assessment area through lending and offers a variety of credit products. A substantial majority of the institution's loans were extended within the assessment areas. Furthermore, the geographic distribution of loans and lending to borrowers of varying incomes and to businesses of different sizes is considered reasonable. The institution also has an appropriate level of qualified community development investments relative to available investment opportunities. Delivery systems and branch locations are considered readily accessible to all segments of the assessment areas. A wide range of products and services are also provided through various means to meet the needs of local residents. The bank has not received any complaints regarding its

CRA performance since the previous examination.

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

PERFORMANCE LEVELS	<u>Atlantic Bank</u>		
	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

Atlantic Bank is headquartered in Ocean City, Maryland, and operates 12 offices in eastern Maryland. The institution is a subsidiary of First Virginia Banks, Inc., a multibank holding company located in the City of Falls Church, Virginia. Additionally, First General Mortgage Company (FGMC), First Virginia Mortgage Company (FVMC), First Virginia Commercial Corporation, and First Virginia Credit Services, Inc., share an affiliate relationship with Atlantic Bank. As of March 31, 1999, the bank had assets of \$229 million, of which 57% were loans and 31% were securities. Various loans and deposit products are available through the institution, including loans for residential mortgage, commercial, and agricultural purposes. The loan portfolio, as of March 31, 1999, was comprised of 50% real estate secured (including consumer and business), 45% consumer and 5% commercial/agricultural. On February 6, 1998, Atlantic Bank acquired three branches from the former Signet Bank. Atlantic Bank also acquired five branches from Bank of Maryland on June 19, 1998. Additionally, one branch office has been closed since the previous consumer affairs examination dated September 22, 1997. The bank's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

During the six-quarter period ending March 1999, the quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Maryland and of similar asset size to Atlantic Bank ranged from 76% to 81%. From December 31, 1997 through March 31, 1999, the bank's average quarterly loan-to-deposit ratio was 65% and is reasonable given the bank's financial capacity, size, and local economic conditions. During this six-quarter period, loans increased by 265%, deposits increased by 298% and assets increased by 314%, and are a result of the recent acquisitions noted above.

As identified in the CRA Public file, a full range of credit products is offered including consumer, small business, residential mortgage, home improvement, and commercial loans. The following table illustrates the lending activity of the bank and lending by affiliates within the bank's assessment area from October 1, 1997 to December 31, 1998.

ATLANTIC BANK LOAN ORIGINATIONS/PURCHASES INCLUDING AFFILIATES (October 1, 1997 to December 31, 1998)				
Loan Type	#	%	\$ (000's)	%
Small Business*	196	16.3%	17,819	62.7%
Small Farm*	3	0.3%	229	0.8%
Small Business-Real Estate Secured	5	0.4%	422	1.5%
Home Equity	111	9.2%	3,510	12.3%
Motor Vehicle	295	24.5%	4,484	15.8%
Other Consumer Secured	197	16.4%	1,478	5.2%
Other Consumer Unsecured	395	32.9%	483	1.7%
Totals	1,202	100.0%	\$28,425	100.0%

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

The institution's volume of lending inside and outside its assessment area from October 1, 1997 to December 31, 1998 is represented in the following table by number and dollar amounts. Because of the limited volume, small farm loans are not included.

Comparison of Credit Extended Inside and Outside of Assessment Area*

	IN				OUT			
	#	%	(000s)	%	#	%	\$ (000s)	%
Small Business**	198	86.8%	18,182	81.6%	30	13.2%	3,143	18.4%
Consumer	772	93.9%	6,464	89.6%	50	6.1%	748	10.4%
Totals	970	92.4%	24,646	86.4%	80	7.6%	3,891	13.6%

* Affiliate lending excluded.

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

As depicted above, a substantial majority of the number (92%) and dollar amounts (86%) of the loans have been provided to assessment area residents. Overall, the percentage of loans made in the assessment area is considered highly responsive to community credit needs.

The geographic distribution of loans is discussed in detail later in this evaluation. While the percentage of lending to borrowers residing in low- and moderate-income areas is slightly low when compared to the population residing in such areas, the overall penetration of lending is considered reasonable given the relatively high poverty rates in such geographies. The bank's lending to low- and moderate-income individuals and businesses with revenues less than \$1 million meets expected performance standards in relation to area demographics. In addition, the institution has demonstrated responsiveness to the credit needs of its market area through 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 and is consistent with its resources and local opportunities. The bank has invested \$250,000 in Maryland Residential Revenue Bonds, which are the primary source of funding for the Maryland Department of Housing and Community Development. The department provides affordable housing loans to low-income families of Maryland. Also, donations have been made to several qualified community development organizations.

SERVICE TEST

The overall rating 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 providing community development services is considered reasonable given available opportunity for such activities.

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. 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 OPERATIONS IN ASSESSMENT AREA:

The institution's assessment area encompasses Dorchester, Somerset, Wicomico, and Worcester Counties, Maryland, and includes one block numbering area (BNA) in Caroline County, Maryland. The nonmetropolitan market area contains 56 census tracts or BNAs. According to the 1990 census data, this

assessment area has a population of 167,486 and a median housing value of \$69,963. The owner-occupancy rate for the market is 45%, which is lower than that for nonmetropolitan areas of Maryland (52%). The 1998 median family income for the nonmetropolitan portions of Maryland is \$44,100.

The following table provides demographics for the metropolitan assessment area by the income level of families and the percentage of population and owner-occupied housing units in census tracts of varying income levels. Poverty rates are also provided.

ASSESSMENT AREA DEMOGRAPHICS

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	22%	19%	24%	35%	100%
Percentage of Population Residing in Census Tracts/BNAs by Income Level of Geography	3%	17%	71%	9%	100%
Percentage of Owner-Occupied Housing Units by Income Level of Geography	<1%	13%	77%	10%	100%
Number of Geographies	6	9	35	6	56
Percentage of Geographies	11%	16%	62%	11%	100%
Percentage of Families Below the Poverty Level by Income Level of Geography	38%	17%	8%	3%	N/A

The assessment area is predominantly rural and consists primarily of Maryland's Eastern Shore. Ocean City, located in Worcester County, is a beachfront community and is a major tourist attraction. Accordingly, tourism is considered the largest industry in the area and significantly affects the local economy. The unemployment rates for the counties of the assessment area are depicted in the chart below. As of June 1999, the unemployment rate for the State of Maryland is 4%.

City or County

Unemployment Rates for June 1999

Caroline County	3.2
Dorchester County	7.1%
Somerset County	9.2%
Wicomico County	4.9%
Worcester County	4.9%

A community contact was recently made with a representative from a local government organization to further assist in evaluating the bank's CRA performance. The contact indicated that local banks are adequately meeting the credit needs of the market area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables include consumer and small business loan data from October 1, 1997 to December 31, 1998. Small farm loans were not considered for analysis purposes because of the small number originated or purchased since the previous evaluation. Area demographics and market aggregate information are used as proxies for demand when evaluating the bank's penetration into geographies of different income levels (1997 aggregate information is used since 1998 aggregated data is not yet available). Aggregated data includes Atlantic Bank and all reporting institutions that originated loans of that type within Atlantic Bank's assessment area in 1997.

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF TRACT/BNA - (INCLUDES AFFILIATE LENDING)				
Tract/BNA Income Level	#	%	\$(000s)	%
Low-Income	17	1.7%	146	1.4%
Moderate-Income	119	11.9%	1,221	12.3%
Middle-Income	737	73.9%	7,294	73.3%
Upper-Income	125	12.5%	1,294	13.0%
Totals	998	100.0%	\$9,955	100.0%

Since the previous evaluation, the purchase of several branch facilities has prompted the expansion of the bank's assessment area to include an additional two low-income, four moderate-income, and eleven middle-income areas. The consumer lending distribution in low- and moderate-income census tracts/BNAs (14%) is slightly lower than the percentage of the population (3% low and 17% moderate) residing in such geographies. Given the fact that 38% and 17% of families in low- and moderate-income geographies, respectively, have incomes below the poverty level, the bank's level of lending within these geographies appears reasonable. Also, nearly 11% of the consumer loans were for home equity loan purposes. With only 14% of owner-occupied housing units in low- and moderate-income geographies, demand for home equity products in these geographies would likely be more limited than indicated by the proportion of population in these areas.

DISTRIBUTION OF SMALL BUSINESS LOANS BY INCOME LEVEL OF TRACT/BNA - (INCLUDES AFFILIATE LENDING)				
Tract/BNA Income Level	#	%	\$(000s)	%
Low-Income	3	1.5%	177	1.0%
Moderate-Income	17	8.5%	823	4.5%

Middle-Income	160	79.6%	16,473	90.3%
Upper-Income	21	10.4%	768	4.2%
Totals	201	100.0%	\$18,241	100.0%

The bank's small business loan penetration in low- and moderate- income geographies is 10%. A review of the 1997 small business aggregate data revealed a less than 2% penetration of total loan volume in low-income areas and a 14% penetration in moderate-income areas. Within the assessment area, Dun and Bradstreet (D & B) demographic information shows that 2% of small businesses are located in low-income tracts/BNAs and 14% in moderate-income tracts/BNAs. Of the small businesses in low- and moderate-income geographies, 20% and 16%, respectively, have been in existence for four years or less. In general, it is more difficult for new businesses to meet the credit standards that result in loan approval. A significant portion of the bank's reported small business loans were purchased in conjunction with the acquisition of branch facilities. These purchased loans tended to be located in middle-income geographies, although 11% were in low-and moderate-income geographies.

The overall lending distribution (consumer and small business) is considered reasonable given the institution's size, locations, and the effective demand for credit. As previously mentioned, relative credit demand was measured using assessment area demographics and market aggregate information as proxies. Further, the above loan distributions demonstrate the bank's ability to serve all segments of its assessment area, including low- and moderate-income geographies.

Borrower's Profile

The following charts illustrate the distribution of consumer and small business loans extended in the assessment area by the income level of the borrower and to businesses of different sizes.

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF BORROWER – (INCLUDES AFFILIATE LENDING)				
Borrower Income Level	#	%	\$(000s)	%
Low-Income*	143	16.9%	689	9.2%
Moderate-Income*	197	23.3%	1,365	18.3%
Middle-Income*	231	27.3%	2,122	28.4%
Upper-Income*	275	32.5%	3,294	44.1%
Total Where Income Reported	846	100.0%	7,470	100.0%
Income Not Reported**	152	15.2%	2,485	25.0%
Totals - All Loans	998		\$9,955	

*Percentages based on loans where income reported

**Percentages based on all reported loans

The volume of consumer loans to low- and moderate-income borrowers (40%) approximates the proportion of low- and moderate-income families in the assessment area (41%).

DISTRIBUTION OF LENDING BY LOAN AMOUNT AND SIZE OF BUSINESS – (INCLUDES AFFILIATE LENDING)								
	\$0 - \$100,000		>\$100,000 to \$250,000		> \$250,000		Total	
	#	%	#	%	#	%	#	%
Total Revenues <= \$1 Million	77	38.5%	11	5.5%	4	2.0%	92	46.0%
Total - All Loans	151		36		13		200	

As illustrated in the preceding table, 46% of all 200 small business loans were provided to businesses with revenues of \$1 million or less. Furthermore, 39% of the loans were to borrowers with revenues not exceeding \$1 million and in amounts of \$100,000 or less.

A substantial portion of the bank's reported loans, however, was purchased and revenue information is not available for these loans. Of the 200 small business loans, revenue is unknown for 69 of these. As a percentage of loans where revenue is known, 70% were to businesses with revenues of \$1 million or less.

In the bank's assessment area, 90% of all businesses have revenues of less than \$1 million according to D & B demographic data. Of these small businesses, 18% have been in existence for four years or less. As noted previously, these newer businesses may have difficulty qualifying for credit. Overall, this level of lending demonstrates responsiveness in meeting the credit needs of local small businesses.

Given the product lines offered by the institution and its affiliates, the distribution of loans to borrowers of different income levels and to businesses of different sizes is considered responsive to community credit needs using aggregate data and area demographics as proxies for demand.

Community Development Loans

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

INVESTMENT TEST

Atlantic Bank has donated \$4,000 to the Salisbury Neighborhood Housing Service (SNHS) to help defray the administrative costs of operation. SNHS is a housing agency that provides affordable housing for low- and moderate-income individuals. Smaller donations have also been made to several other community development organizations. As previously noted, an investment in a state housing agency bond has been recently made. The institution's level of qualified investments is considered reasonable given available opportunities.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. Automated teller machines (ATMs) are available and, through a network, provide customers with 24-hour nationwide access. Four (36%) of the bank's 11 ATMs are located in low- and moderate-income census tracts/BNAs. Bank-by-mail and bank-by-computer services are also offered by the institution for deposit and lending products. In addition, Atlantic Bank provides customers with 24-hour telephone access to their accounts.

Branch Locations and Hours of Operation

Atlantic Bank has 12 offices of which four (33%) are located in moderate-income areas. Additionally, branch locations and business hours are considered convenient and meet the needs of the assessment area. Almost all branch offices are open Monday through Friday until 6:00 p.m. and offer Saturday hours. One office, located in a Wal-Mart, is open Sunday and provides extended evening hours until 8:00 p.m. After purchasing several offices from Signet Bank, Atlantic Bank consolidated two branches located one-half mile apart. Neither of the consolidated branches was located in low- or moderate-income tracts. A branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991.

Community Development Services

The bank is involved with a variety of community development services. The institution is a member of the Worcester County Banker's Group, an association of seven area banks committed to identifying unmet credit needs for low- and moderate-income residents of Worcester County. Furthermore, bank personnel serve on the boards of various community development organizations, such as the Salisbury Neighborhood Housing Service and Worcester County Habitat for Humanity. Through the bank's partnership with the SNHS, classes for first time homebuyers and financial counseling are provided to low- and moderate-income residents.

Additionally, foreign language bank brochures are readily available in bank offices. Multilingual bank representatives can be contacted to assist the foreign speaking customer.

Atlantic Bank's provision of community development services within the assessment area is considered appropriate.