PUBLIC DISCLOSURE

June 13, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers and Merchants Bank
Certificate Number: 1895

15226 Hanover Pike
Upperco, Maryland 21155

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
New York Regional Office

350 Fifth Avenue, Suite 1200
New York, New York 10118

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.**

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its small businesses and home mortgage loans in its assessment area.
- The geographic distribution of loans reflects poor dispersion throughout the assessment area.
- The distribution of borrowers reflects, given assessment area demographics, reasonable penetration among businesses of different sizes and individuals of different income levels.
- The institution did not receive any CRA-related complaints during the evaluation period; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The bank demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment area.

DESCRIPTION OF INSTITUTION

Background

Farmers and Merchants Bank (F&M) is a full-service community bank headquartered in Upperco, Maryland (MD). The bank is wholly owned by Farmers and Merchants Bancshares, Inc., (FMBI), a one-bank holding company located in Hampstead, MD. FMBI also owns a captive insurance company formed to provide additional insurance coverage for F&M. The bank has one subsidiary, Reliable Community Financial Services, Inc., that remains largely dormant. In October 2020, F&M acquired Carroll Community Bank (CCB) headquartered in Sykesville, MD. F&M received a Satisfactory rating at its previous FDIC Performance Evaluation, dated July 8, 2019, based on Interagency Intermediate Small Institution Examination Procedures.

Operations

F&M operates eight full-service branches, including five in Carroll County, MD and three in Baltimore County, MD. F&M acquired two branches from CCB in October 2020; both located in Carroll County, and closed one of the acquired branches in December 2020. F&M also closed a branch in Baltimore County in April 2021. With the exception of one branch in Sykesville, MD (Carroll County), which is located in an upper-income census tract, all of F&M's branches are located in middle-income census tracts.

F&M offers a variety of commercial and consumer loan and deposit products. Loan products include commercial, home mortgage, and consumer loans; with a primary focus on commercial lending. Deposit products include checking, savings, money market, certificates of deposit, and retirement savings accounts. Alternative banking services include internet and mobile banking, electronic bill pay, branch automated teller machines (ATMs), and access to the worldwide Allpoint Network of surcharge-free ATMs.

Ability and Capacity

As of March 31, 2022, assets totaled \$718.6 million, loans totaled \$487.8 million, and securities totaled \$167.1 million. Total assets increased 64.6 percent, total loans increased 41.9 percent, and total securities increased approximately 201.0 percent since the prior evaluation. Growth is primarily attributed to the acquisition of CCB. The following table illustrates the loan portfolio distribution.

Loan Portfolio Distribution as of March 31, 2022		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	17,751	3.6
Secured by Farmland	2,809	0.6
Secured by 1-4 Family Residential Properties	78,023	16.0
Secured by Multifamily (5 or more) Residential Properties	34,096	7.0
Secured by Nonfarm Nonresidential Properties	329,077	67.5
Total Real Estate Loans	**461,756**	**94.6**
Commercial and Industrial Loans	26,396	5.4
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	281	0.1
Obligations of State and Political Subdivisions in the U.S.	0	0
Other Loans	22	< 0.1
Lease Financing Receivable (net of unearned income)	0	0
Less: Unearned Income	607	0.1
Total Loans	**487,848**	**100.0**
Source: Reports of Condition and Income; Due to rounding, totals may not equal 100.0%		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which examiners will evaluate its CRA performance. F&M designated a single assessment area encompassing all of Carroll County, MD, and a contiguous portion of Baltimore County, MD. The assessment area consists of all 38 census tracts in Carroll County and 44 census tracts in Baltimore County. All 82 census tracts are in Metropolitan Statistical Area (MSA) 12580 (Baltimore-Columbia-Towson, MD). F&M expanded the assessment area by adding five Baltimore County census tracts since the previous evaluation, following the acquisition of CCB and its branches in late 2020.

Economic and Demographic Data

The assessment area's 82 census tracts reflect the following income designations according to 2015 American Community Survey (ACS) U.S. Census data:

- 9 moderate-income census tracts,
- 39 middle-income census tracts, and
- 34 upper-income census tracts.

The assessment area does not include any low-income geographies. The following table presents select demographic, housing, and economic information for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	82	0.0	11.0	47.6	41.5	0.0
Population by Geography	376,605	0.0	14.1	46.8	39.0	0.0
Housing Units by Geography	147,812	0.0	14.0	48.3	37.7	0.0
Owner-Occupied Units by Geography	101,729	0.0	6.9	46.9	46.2	0.0
Occupied Rental Units by Geography	37,971	0.0	32.7	50.5	16.8	0.0
Vacant Units by Geography	8,112	0.0	15.2	55.6	29.2	0.0
Businesses by Geography	45,838	0.0	11.5	45.4	43.1	0.0
Farms by Geography	1,498	0.0	5.3	53.7	41.1	0.0
Family Distribution by Income Level	98,065	16.8	15.9	21.1	46.2	0.0
Household Distribution by Income Level	139,700	18.9	15.2	18.1	47.9	0.0
Median Family Income MSA - 12580 Baltimore-Columbia-Towson, MD MSA		$87,788	Median Housing Value			$312,624
			Median Gross Rent			$1,197
			Families Below Poverty Level			4.6%
Source: 2015 ACS and 2021 D&B Data. Due to rounding, totals may not equal 100.0%. (*) The NA category consists of geographies that have not been assigned an income classification.						

The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. The assessment area contains 147,812 housing units. Of these, 68.8 percent are owner-occupied, 25.7 percent are occupied rental units, and 5.5 percent are vacant. Owner-occupied housing units provide an indication of the opportunity institutions have to originate 1-4 family residential mortgage loans. As shown in the table above, only 6.9 percent of owner-occupied housing units are located in moderate-income geographies. In contrast, 32.7 percent of occupied rental units are located in moderate-income geographies. This data suggests there is a greater opportunity for families to rent than to own housing units in moderate-income geographies, which limits opportunities for lenders to originate 1-4 family residential loans in these areas.

Also shown above, 16.8 percent of the assessment area's families are low-income, including 4.6 percent living below the poverty level, and 15.9 percent are moderate-income. This data suggests that it would be difficult for these families to qualify for a home mortgage loan or support a monthly mortgage payment, especially considering the assessment area's median housing value of $312,624. This data suggests lenders may face challenges in originating loans to low- or moderate-income borrowers.

The Geographic Distribution criterion also compares the bank's small business lending to the distribution of area businesses, with a focus on lending in the moderate-income census tracts. As shown in the table above, only 11.5 percent of the area's business are in the nine moderate-income census tracts. This suggests somewhat limited opportunity for lenders to make small business loans in these tracts.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by Gross Annual Revenue (GAR) level. According to 2021 D&B data, 45,838 non-farm businesses operate within the assessment area. GARs for area businesses are as follows:

- 90.2 percent have GARs of $1.0 million or less,
- 3.6 percent have GARs of more than $1.0 million, and
- 6.2 percent have unreported GARs.

Service industries represent the largest portion of businesses in the assessment area (37.7 percent); followed by non-classifiable establishments (24.9 percent); finance, insurance, and real estate (11.0 percent); and retail trade (8.3 percent). A significant majority of businesses (91.9 percent) have fewer than 10 employees, and 93.8 percent operate from a single location. This data supports opportunities to lend to small businesses.

The Borrower Profile criterion also analyzes the distribution of loans by borrower income level. Examiners used the Federal Financial Institutions Examination Council's (FFIEC) updated median family income data to analyze the bank's home mortgage lending under the Borrower Profile criterion. The following table reflects the median family income ranges for the low-, moderate-, middle-, and upper-income categories in the assessment area.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
Baltimore-Columbia-Towson, MD MSA Median Family Income (12580)				
2019 ($101,000)	<$50,500	$50,500 to <$80,800	$80,800 to <$121,200	≥$121,200
2020 ($104,000)	<$52,000	$52,000 to <$83,200	$83,200 to <$124,800	≥$124,800
2021 ($105,100)	<$52,550	$52,550 to <$84,080	$84,080 to <$126,120	≥$126,120
Source: FFIEC				

Data obtained from the U.S. Bureau of Labor Statistics show that unemployment rates at the county, state, and national levels generally improved since the previous evaluation. The 2020 unemployment rates reflect the impact of the COVID-19 pandemic. As shown in the following table, unemployment in the assessment area counties declined at a rate similar to the State of Maryland following the pandemic, although not quite as sharply as the national average. Current unemployment rates in the assessment area are below the state and national averages.

Unemployment Rates				
Area	2019	2020	2021	April 2022
	%	%	%	%
Baltimore County	3.5	6.8	5.7	3.4
Carroll County	2.8	5.1	4.2	2.4
State of Maryland	3.4	6.7	5.8	4.2
National Average	3.7	8.1	5.4	3.6
Source: Bureau of Labor Statistics				

Competition

The bank operates in a competitive market for financial services. According to 2020 FDIC Deposit Market Share data, 24 financial institutions operated 104 branches within the assessment area. Of these institutions, F&M ranked 8th with a 3.5 percent deposit market share. The top five financial institutions, each a large national bank, operated a combined 64 branches in the assessment area and captured 68.2 percent of the deposit market share.

There is a high level of competition for small business loans in the assessment area. F&M is not required to report small business lending data and has elected not to do so; therefore, examiners did not use aggregate lending data for comparison purposes. However, examiners reviewed the most recently available aggregate lending data to gauge the level of competition and demand for small business loans within the assessment area. According to 2020 small business lending data, 175 lenders operating in Baltimore and Carroll Counties originated 26,896 small business loans. The top five lenders, all larger national and regional institutions, accounted for 52.4 percent of the total market share.

The market for home mortgage loans is also highly competitive. In 2020, 447 institutions reported originating or purchasing 25,289 home mortgage loans in the assessment area. Of these institutions, F&M ranked 49th with a 0.5 percent market share. The top five lenders, all large national banks or internet-based home mortgage lenders, accounted for 23.5 percent of the market share by number of loans originated or purchased.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also demonstrates what credit and community development opportunities are available.

Examiners contacted a representative of an economic development organization in the assessment area. The organization's primary purpose is to promote economic development for businesses and act as a liaison between small businesses and local financial institutions. The contact noted that small businesses with fewer than 50 employees have difficulty securing funding for working capital, equipment, and other general business needs. The contact stated that a loan program specifically targeted to start-up and early-stage businesses would benefit the community.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that flexible small business and start-up loans are primary credit needs in the assessment area, particularly for businesses that may not qualify for traditional credit. Economic, demographic, and aggregate lending data further support opportunities for banks to assist individuals and small businesses with flexible loan products. The significant percentage of businesses with GARs of $1.0 million or less supports opportunities for banks to provide loan products to address the credit needs of small businesses as noted by the community contact.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous CRA evaluation dated July 8, 2019, to the current evaluation dated June 13, 2022. Examiners used the FFIEC Intermediate Small Institution Examination Procedures to evaluate F&M's CRA performance. These procedures include the Lending Test and the Community Development Test. Please refer to the Appendix for a complete description of these tests. Examiners used full-scope procedures to assess the bank's performance in its designated assessment area.

Activities Reviewed

F&M's major product lines, considering the bank's business strategy and the number and dollar volume of loans originated during the evaluation period, are small business and home mortgage loans. Small business loans contributed more weight to developing overall conclusions than home mortgage loans, due to the larger volume of loans reported during the review period, even when excluding the Small Business Administration's (SBA) Paycheck Protection Program (PPP) loans originated during the COVID-19 pandemic. The bank did not originate any small farm loans, and no other loan type, such as consumer loans, represent a major product line or provide material support for conclusions or ratings; therefore, examiners did not present these products. Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period.

As stated previously, as an Intermediate Small Institution, F&M is not required to collect and report small business data; however, the bank opted to collect this information. Examiners analyzed F&M's 2019, 2020, and 2021 small business lending performance using bank records. In 2019, the bank originated 128 small business loans totaling $38.1 million. In 2020, the bank originated 490 small business loans totaling $75.3 million. Management attributes the significant increase in small business loan volume in 2020 to the bank's participation in the PPP during the COVID-19 pandemic. In 2020, F&M made 353 small business loans through the PPP totaling $34.8 million. In 2021, F&M originated 128 small business loans totaling $46.6 million. In analyzing the bank's small business lending performance, examiners compared the bank's performance to 2019, 2020, and 2021 D&B demographic data.

Examiners analyzed home mortgage loans reported on F&M's 2019, 2020, and 2021 Home Mortgage Disclosure Act (HMDA) Loan Application Registers. In 2019, F&M reported 97 HMDA loans totaling $32.7 million. In 2020, F&M reported 211 home mortgage loans totaling $60.3 million. In 2021, the bank reported 180 HMDA loans totaling $52.3 million. Examiners used 2019 and 2020 aggregate lending data and 2015 ACS data for comparison purposes.

For the Lending Test, examiners reviewed the number and dollar volume of small business and home mortgage loans. While this evaluation presents the number and dollar volume of loans, examiners emphasized performance by number of loans because it is a better indicator of the number of individuals and businesses served. For the Community Development Test, management provided data on community development loans, investments, and services since the prior CRA evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

F&M demonstrated reasonable performance under the Lending Test. The bank's Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance primarily support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The LTD ratio, calculated from Call Report data, averaged 86.5 percent over the past 11 calendar quarters from September 30, 2019, to March 31, 2022. The ratio ranged from a high of 95.0 percent as of December 31, 2019 to a low of 76.1 percent as of March 31, 2022.

Examiners compared F&M's average net LTD ratio to that of three similarly situated institutions. Examiners selected similarly situated institutions based on their asset size, geographic location, and lending focus. As shown in the following table, F&M's average net LTD ratio is comparable to those of similarly situated institutions.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2022 $(000s)	Average Net LTD Ratio (%)
Founders & Merchants Bank	**718,625**	**86.5**
BayVanguard Bank	849,889	95.8
Harford Bank	593,807	82.4
Queenstown Bank	675,712	78.2
Source: Reports of Condition and Income 09/30/2019 – 03/31/2022		

Assessment Area Concentration

F&M made a majority of its small business and home mortgage loans, by number and dollar volume, inside the assessment area. While the bank originated a slight majority of home mortgage loans outside the assessment area by dollar volume in 2019, this did not negatively impact the overall percentage of loans in the assessment area. Please refer to the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	**Number of Loans**				**Total**	**Dollar Amount of Loans $(000s)**				**Total**
	Inside		**Outside**			**Inside**		**Outside**		
	#	**%**	**#**	**%**	**#**	**$**	**%**	**$**	**%**	**$(000s)**
Small Business										
2019	93	72.7	35	27.3	128	21,153	55.5	16,979	44.5	38,131
2020	363	74.1	127	25.9	490	49,662	66.0	25,628	34.0	75,289
2021	89	69.5	39	30.5	128	25,728	55.2	20,888	44.8	46,617
Subtotal	**545**	**73.1**	**201**	**26.9**	**746**	**96,542**	**60.3**	**63,494**	**39.7**	**160,037**
Home Mortgage										
2019	58	59.8	39	40.2	97	15,871	48.5	16,878	51.5	32,749
2020	131	62.1	80	37.9	211	36,123	59.9	24,136	40.1	60,260
2021	116	64.4	64	35.6	180	35,389	67.7	16,919	32.3	52,308
Subtotal	**305**	**62.5**	**183**	**37.5**	**488**	**87,383**	**60.1**	**57,933**	**39.9**	**145,316**
Total	**850**	**68.9**	**384**	**31.1**	**1,234**	**183,925**	**60.2**	**121,428**	**39.8**	**305,353**
Source: Bank Data. Due to rounding, totals may not equal 100.0%										

Geographic Distribution

The geographic distribution of loans reflects poor dispersion throughout the assessment area. The bank’s poor small business and home mortgage lending performance supports this conclusion.

Small Business Loans
The geographic distribution of small business loans reflects poor dispersion. Examiners focused on the percentage of loans, by number, in moderate-income census tracts. F&M’s performance significantly trailed area demographics over the evaluation period, reflecting poor performance.

The following table reflects the distribution of loans by census tract income level in 2019, 2020, and 2021.

Geographic Distribution of Small Business Loans					
Tract Income Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
Moderate					
2019	10.1	3	3.2	1,594	7.5
2020	10.7	7	1.9	1,319	2.7
2021	11.5	2	2.2	1,550	6.0
Middle					
2019	45.4	56	60.2	11,314	53.5
2020	44.7	224	61.7	26,431	53.2
2021	45.4	55	61.8	14,292	55.6
Upper					
2019	44.4	34	36.6	8,245	39.0
2020	44.6	132	36.4	21,913	44.1
2021	43.1	32	36.0	9,886	38.4
Not Available					
2019	0.0	0	0.0	0	0.0
2020	0.0	0	0.0	0	0.0
2021	0.0	0	0.0	0	0.0
Totals					
2019	**100.0**	**93**	**100.0**	**21,153**	**100.0**
2020	**100.0**	**363**	**100.0**	**49,662**	**100.0**
2021	**100.0**	**89**	**100.0**	**25,728**	**100.0**
Source: 2019, 2020 & 2021 D&B Data; Bank Data *Due to rounding, totals may not equal 100.0%*					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects poor dispersion. Examiners focused on the percentage of loans, by number, in moderate-income census tracts. F&M made only one loan in a moderate-income tract over the evaluation period. Considering the comparison to aggregate lending data and demographic data, this reflects poor performance. The following table reflects the distribution of loans by census tract income level in 2019, 2020, and 2021.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	**% of Owner-Occupied Housing Units**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Moderate						
2019	6.9	6.5	0	0.0	0	0.0
2020	6.9	5.3	1	0.8	201	0.6
2021	6.9	--	0	0.0	0	0.0
Middle						
2019	46.9	47.9	42	72.4	11,357	71.6
2020	46.9	46.0	100	76.3	26,633	73.7
2021	46.9	--	84	72.4	20,295	57.3
Upper						
2019	46.2	45.5	16	27.6	4,514	28.4
2020	46.2	48.7	30	22.9	9,290	25.7
2021	46.2	--	32	27.6	15,094	42.7
Not Available						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	0.0	0	0.0	0	0.0
2021	0.0	--	0	0.0	0	0.0
Totals						
2019	**100.0**	**100.0**	**58**	**100.0**	**15,871**	**100.0**
2020	**100.0**	**100.0**	**131**	**100.0**	**36,123**	**100.0**
2021	**100.0**	**--**	**116**	**100.0**	**35,389**	**100.0**
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Borrower Profile

The distribution of loans to businesses of different sizes and individuals of different income levels is reasonable. The bank's reasonable penetration of small business and home mortgage loans supports this conclusion.

Small Business Loans

The distribution of loans reflects reasonable penetration among businesses of different sizes. In 2019, nearly half of F&M's small business loans were to businesses reporting GARs of $1.0 million or less. Although F&M is not a small business reporter, examiners reviewed aggregate data at the full county level for 2019 to gauge market demand for small business loans. Aggregate lenders originated 50.0 percent of their loans to businesses with GARs of $1.0 million or less in 2019.

In 2020, F&M's lending to businesses with GARs of $1.0 million or less decreased sharply as a percentage of total loans. However, it is important to note that the small business loan data for 2020 includes PPP loans originated in response to the needs of businesses during the COVID-19 pandemic. Since the PPP does not require lenders to collect business revenue information, a large majority of the bank's small business loans do not include revenue information. When excluding loans from the "Revenue Not Available" category, the bank made 47 out of 97 loans, or 48.5 percent, to businesses with GARs of $1.0 million or less.

In 2021, the majority of F&M's small business loans were to businesses with GARs of $1.0 million or less. Overall, these trends and comparisons reflect reasonable performance. The following table displays the distribution of small business loans by revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000					
2019	88.1	45	48.4	11,102	52.5
2020	89.4	47	12.9	12,624	25.4
2021	90.2	47	52.8	13,283	51.6
>$1,000,000					
2019	4.8	48	51.6	10,050	47.5
2020	4.1	50	13.8	13,729	27.6
2021	3.6	42	47.2	12,445	48.4
Revenue Not Available					
2019	7.1	0	0.0	0	0.0
2020	6.4	266	73.3	23,308	46.9
2021	6.2	0	0.0	0	0.0
Totals					
2019	**100.0**	**93**	**100.0**	**21,153**	**100.0**
2020	**100.0**	**363**	**100.0**	**49,662**	**100.0**
2021	**100.0**	**89**	**100.0**	**25,728**	**100.0**
Source: 2019, 2020 & 2021 D&B Data; Bank Data *Due to rounding, totals may not equal 100.0%*					

Home Mortgage Loans

The distribution of loans reflects reasonable penetration among individuals of different income levels. Examiners focused on the bank's lending to low- and moderate-income borrowers. F&M's lending to low-income borrowers exceeded aggregate performance in 2019 and 2020. In 2021, the bank's lending to low-income borrowers increased and performance compared reasonably to 2021 demographic data. The significant disparity between aggregate performance and percentage of low-income families reflects the difficulties that low-income families face qualifying for a home mortgage loan. Specifically, a low-income family in the assessment area, with an income below $52,550, would likely not qualify for a mortgage under conventional underwriting standards, especially considering the median housing value of $312,624. Therefore, the demand and opportunity for lending to low-income families is relatively limited.

Similar to the bank's performance in lending to low-income borrowers, F&M's lending to moderate-income borrowers increased each year during the evaluation period. F&M outperformed aggregate and demographic data in 2019. While the bank's performance trailed aggregate and demographic data in 2020, performance increased in 2021, exceeding the demographic data. These comparisons reflect reasonable performance. The following table illustrates the distribution of home mortgage loans.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	**% of Families**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2019	16.8	7.8	7	12.1	927	5.8
2020	16.8	5.6	11	8.4	1,904	5.3
2021	16.8	--	17	14.7	2,662	7.5
Moderate						
2019	15.9	18.7	11	19.0	2,313	14.6
2020	15.9	17.7	17	13.0	3,994	11.1
2021	15.9	--	24	20.7	5,489	15.5
Middle						
2019	21.1	21.6	14	24.1	3,777	23.8
2020	21.1	20.7	39	29.8	10,263	28.4
2021	21.1	--	24	20.7	6,627	18.7
Upper						
2019	46.2	31.7	14	24.1	4,476	28.2
2020	46.2	33.8	47	35.9	15,528	43.0
2021	46.2	--	29	25.0	9,391	26.5
Not Available						
2019	0.0	20.2	12	20.7	4,377	27.6
2020	0.0	22.2	17	13.0	4,434	12.3
2021	0.0	--	22	19.0	11,219	31.7
Totals						
2019	**100.0**	**100.0**	**58**	**100.0**	**15,871**	**100.0**
2020	**100.0**	**100.0**	**131**	**100.0**	**36,123**	**100.0**
2021	**100.0**	**--**	**116**	**100.0**	**35,389**	**100.0**
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available *Due to rounding, totals may not equal 100.0%*						

Response to Complaints

F&M did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

COMMUNITY DEVELOPMENT TEST

The institution demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities in the institution's assessment area.

Community Development Loans

F&M originated 59 community development loans totaling $23.3 million during the evaluation period, representing 3.2 percent of total assets and 4.8 percent of total loans as of March 31, 2022. Since the bank was responsive to community development needs and opportunities within its assessment area, examiners also considered community development loans that benefitted the broader regional area. The bank's community development loans were primarily responsive to affordable housing needs. Community development loans decreased by number and dollar volume since the prior evaluation, at which time the bank originated 76 loans totaling $30.7 million. The following table illustrates the bank's community development lending activity by year and purpose.

Community Development Lending by Activity Year

Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)
2019	9	5,273	0	0	0	0	0	0	**9**	**5,273**
2020	16	6,030	1	18	0	0	0	0	**17**	**6,048**
2021	20	7,443	0	0	0	0	0	0	**20**	**7,443**
YTD 2022	12	3,798	1	738	0	0	0	0	**13**	**4,536**
Total	**57**	**22,544**	**2**	**756**	**0**	**0**	**0**	**0**	**59**	**23,300**

Source: Bank Data

The following table illustrates the bank's community development lending activity by assessment area and regional activities and by purpose. The bank's regional activities largely benefitted communities immediately surrounding the assessment area.

Community Development Lending by Area

	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)
Assessment Area	23	8,090	2	756	0	0	0	0	**25**	**8,846**
Regional Activities	34	14,454	0	0	0	0	0	0	**34**	**14,454**
Total	**57**	**22,544**	**2**	**756**	**0**	**0**	**0**	**0**	**59**	**23,300**

Source: Bank Data

Below are notable examples of the bank's community development loans.

- In 2020, the bank modified and extended the term of a loan originally made to refinance a 152-unit residential apartment complex that provides affordable housing to low- and moderate-income individuals in Carroll County. The rent for each unit is below the U.S. Department of Housing and Urban Development's (HUD) Fair Market Rent (FMR) guidelines. Agencies use HUD's FMRs to determine payment standard amounts for various government programs and housing assistance payment contracts.

- In 2021, the bank modified and extended the term of a $1.3 million loan originally made to construct a 13-unit residential building within the assessment area. The loan supports affordable housing for low- and moderate-income individuals as 12 of the 13 units offer rents below HUD's FMR guidelines.

- In 2021, the bank modified and extended the term of a $645,438 loan originally made to purchase an 18-unit apartment building in Carroll County. Each of the 18 units offer rents below HUD's FMR guidelines, thereby providing affordable housing for low- and moderate-income individuals.

Qualified Investments

F&M made 36 qualified investments totaling $1.9 million. This total includes 6 prior period equity investments with a current book value of approximately $1.9 million and 30 donations and grants totaling $19,742. This represents 1.1 percent of total securities and 0.3 percent total assets as of March 31, 2022. Qualified investments increased by 89.5 percent by number but declined 43.2 percent by dollar volume when compared to the prior evaluation, where qualified investments and donations represented 6.7 percent of total securities and 0.8 percent of total assets. The bank's community development investments were primarily responsive to community services benefitting low- and moderate-income individuals.

Below are notable examples of the bank's outstanding investments and qualified donations made over the evaluation period.

- The bank continues to hold two government-sponsored mortgage-backed securities (MBSs) with a current book value of $584,892. These MBSs consist of underlying mortgages originated primarily to low- and moderate-income borrowers in the bank's assessment area.

- The bank made seven qualified donations totaling $4,260 to a nonprofit organization that provides financial assistance and food to residents in need in Carroll and Baltimore Counties. The nonprofit also pairs professionals within the community with area residents working toward self-sufficiency. This organization provides services to low- and moderate-income individuals.

- F&M made six donations totaling $3,000 to a nonprofit organization in Carroll County that offers services that include substance abuse treatment, food distribution, and outreach programs to low- and moderate-income residents.

- In 2021, the bank made four donations of cash and in-kind contributions totaling $3,250 to a nonprofit outreach and support center in Carroll County. The organization assists low- and moderate-income residents who are working toward social and economic self-sufficiency.

Community Development Services

Bank staff provided 179 instances of financial expertise and/or technical assistance during the evaluation period. This represents a 54.3 percent increase in the number of community development services performed by bank employees when compared to the prior evaluation, during which time bank employees provided 116 instances of financial expertise and/or technical assistance.

The following table reflects the bank's community development services by year and purpose.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	#	#	#	#
2019	12	14	0	0	**26**
2020	24	39	0	0	**63**
2021	24	36	0	0	**60**
YTD 2022	12	18	0	0	**30**
Total	**72**	**107**	**0**	**0**	**179**
Source: Bank Data					

Below are notable examples of the bank's community development services.

- An officer provides financial expertise by serving on the Finance Committee of an affordable housing organization in Carroll County. The organization serves low- and moderate-income individuals and families.

- An officer donated six hours per month serving as a member of the Personnel Committee of a nonprofit organization that provides financial assistance and basic necessities to low- and moderate-income residents of Carroll County and parts of Baltimore County.

- A Board member served on the Finance Committee of a nonprofit organization headquartered in Baltimore City that serves the broader community. The nonprofit provides financial and social support to low- and moderate-income residents.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners reviewed the bank's compliance with the laws relating to discrimination and other illegal credit practices, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
3) The geographic distribution of the bank's loans;
4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

1) The number and amount of community development loans;
2) The number and amount of qualified investments;
3) The extent to which the bank provides community development services; and
4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

1. Support affordable housing for low- and moderate-income individuals;
2. Target community services toward low- and moderate-income individuals;
3. Promote economic development by financing small businesses or farms; or
4. Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

(1) Has as its primary purpose community development; and
(2) Except in the case of a wholesale or limited purpose institution:
  (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

(1) Has as its primary purpose community development;
(2) Is related to the provision of <u>financial</u> services; and
(3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

(1) An unemployment rate of at least 1.5 times the national average;
(2) A poverty rate of 20 percent or more; or
(3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA):** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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 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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.