

PUBLIC DISCLOSURE

August 19, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank-Martinsburg

05540810

P.O. Box 928

Martinsburg, West Virginia 25401

Federal Reserve Bank of Richmond

P. O. Box 27622

Richmond, Virginia 23261

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.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of F & M Bank-Martinsburg, Martinsburg, West Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of August 19, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

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

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated Outstanding based on the findings presented below.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Conclusion/Support

Outreach efforts are strong and demonstrate a willingness by the institution to promote community development. The bank's primary method of determining the credit needs of its local community is through a formal call program. Calls are well documented and represent contacts with a diverse cross-section of the community including local community leaders, businesses, and area residents. Through the call program, management maintains relationships with trade associations, economic development organizations, community development corporations, and local housing organizations. In addition, management has conducted surveys for the purpose of obtaining feedback on the bank's performance within the local market. These outreach efforts are ongoing and considered a valuable means of ascertaining community credit needs and promoting bank services.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Conclusion/Support

The board of directors has adopted and approved a formal CRA policy which is incorporated into its expanded CRA Statement. The policy addresses outreach efforts, community development lending, credit products, and branch closing procedures. The overall CRA program is directed by a CRA committee comprised of the president and five vice presidents. The committee meets periodically and reports CRA related activities to the board. Minutes from the directors' meetings reflect periodic discussion of CRA matters.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Conclusion/Support

Marketing efforts have primarily taken the form of service and product advertisements placed in local publications and broadcast on local radio stations. These advertisements are designed to stimulate general community awareness and inform area residents of the availability of deposit and loan products. The institution also publishes a newsletter on a semiannual basis which contains information on upcoming events, recent bank activities, and new products and services. These marketing efforts appear adequate.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Conclusion/Support

The CRA statement, approved by the board of directors on December 12, 1995, identifies a full range of credit services including consumer, residential mortgage, home improvement, residential construction, and commercial loans. These credit products appear responsive to the needs of the community, and all types have been extended.

As of June 30, 1996, 79% of the bank's loan portfolio was concentrated in real estate secured credit extensions for both consumer and commercial purposes. Since the previous evaluation, the bank has extended 197 residential real estate loans for \$16 million. Included in this figure are 58 home purchase loans for \$4.6 million, 34 home construction loans totaling \$3.3 million, and 94 refinance loans for \$6.4 million. In addition, 37 mobile home loans totaling \$479,489 have been originated. Furthermore, a review of the bank's 1995 Home Mortgage Disclosure Act (HMDA) data indicated that 63% of all HMDA reportable real estate loans originated were to borrowers earning less than 80% of the median-family income for the MSA.

In 1996 the bank introduced a special Adjustable Rate Mortgage (ARM) program designed specifically for first-time home buyers. This "First Time Home Buyer" ARM loan is available for a 20 or 25 year term. After 15 years, the interest rate adjusts but can not increase or decrease by more than 2% from the initial rate. To date, ten of these "First Time Home Buyer" ARM loans have been extended.

The bank is an active consumer lender. From April 1995 through July 1996, the institution extended 671 loans totaling \$4.2 million for a variety of consumer needs. In addition, small dollar amount loans which often benefit low- and moderate-income borrowers are available. Since the previous evaluation, 83 such loans for \$1,500 or less have been made for a total of \$88,701.

Commercial loans are also offered by the institution. Since April 1995, the bank has provided 160 commercial loans totaling \$12.4 million for a variety of business needs, including loans for working capital and business start-up or expansion purposes. A majority of these credit extensions (70%) were to small businesses with gross annual revenues of \$1 million or less.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Conclusion/Support

Government sponsored mortgage loans are offered through Big Apple Mortgage Company, Inc., (BAM), a bank affiliate. Applicants for such credit are referred to BAM through a mortgage representative located in a branch in Martinsburg. Management was not aware of any Government sponsored mortgage loans being extended within the delineated community.

Conclusion/Support--contd.

In addition, Small Business Administration loans are available through the bank. In addition, F & M Bank-Martinsburg participates in the Capital Access Program through the West Virginia Economic Development Program. This program specializes in the expansion and growth of small

to medium size businesses. Since the previous evaluation, no Government sponsored business loans have been originated.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

Conclusion/Support

The local community has been delineated as Berkeley County, West Virginia, and includes the City of Martinsburg, West Virginia. This delineation appears reasonable, meets the purpose of the regulation, and does not exclude any low- and moderate-income areas.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Conclusion/Support

Berkeley County, West Virginia is part of the Washington, D. C. Metropolitan Statistical Area (MSA) and is entirely comprised of moderate-income census tracts. The bank monitors the geographic distribution of accepted and denied credit applications within the delineated community by census tract. Information is compiled and reviewed by management for various consumer products including home equity, automobile, real estate, unsecured, and other secured loan applications. A review of the bank's 1995 HMDA data revealed that 90% of all originated real estate loans were to borrowers within Berkeley County. A sample of credit applications received during July 1996, was also analyzed to determine the institution's level of lending activity within its delineated community. The data indicated that 86% of originations and 78% of denials were to residents of Berkeley County. The loans reviewed demonstrated a reasonable penetration of lending into all segments of the delineated community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Conclusion/Support

The institution's offices are reasonably accessible to all segments of the community, and hours of operation are considered convenient. Since the previous evaluation, two branch offices have been consolidated leaving three full-service locations. Because the two branches were closely situated and serviced the same customers, no consumers were adversely affected by the closing. A formal policy addressing branch closings that meets the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 has been adopted.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Conclusion/Support

Adequate policies, procedures, and training have been developed to support nondiscrimination in all lending activities. Applications are solicited from all segments of the delineated community, including low- and moderate-income neighborhoods. A review of 1995 HMDA data indicated that 4% of mortgage applications where race was available were from minorities. This percentage is consistent with the 4.7% minority

population within Berkeley County.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Conclusion/Support

A review was made of written loan policies, forms, procedures, and 31 accepted and 45 denied loan applications for consumer and business credit; and an interview with a loan officer was also performed to determine compliance with the fair housing and fair lending laws and regulations. The review of credit files demonstrated an equal application of credit standards among all applicants. The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations. Technical violations of Regulation C, however, were identified during the examination.

The bank's 1995 HMDA information was used to specifically conduct an analysis of mortgage lending since information regarding race is reported for these loans. The bank evidences a denial ratio for minorities that closely parallels that for white applicants at 1 to 1.27.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Conclusion/Support

Through its outreach efforts, management is aware of community development opportunities in the local market and has played a leadership role in the promotion of economic growth within the community. Participation in various projects has taken the form of direct loans, contributions, and technical expertise.

The institution supports community development primarily through direct lending to small businesses, individuals, and nonprofit organizations, as evidenced by a 79% loan-to-deposit ratio. Many of these loans have helped to provide affordable housing for area residents. Some of the loans recently extended for community development purposes include:

A loan and line of credit were extended to a nonprofit organization for the purpose of rehabilitating low-income dwellings.

Conclusion/Support--contd.

Two loans were provided to a small business for the refinance and remodeling of rental property. The property will eventually be converted into six to eight apartments which will be rented to low- and moderate-income people.

A loan was originated to a local business owner for the purchase of a mobile home park.

Financing has been provided to a number of developers to finance the construction of housing in low- and moderate-income subdivisions.

An extension of credit was made to the Berkeley County Emergency Ambulance Authority to purchase a lot for a new substation in the county.

The bank granted a line of credit to an investment corporation. The corporation will use the line to purchase mobile homes for resale primarily to low- and moderate-income buyers.

During 1991, the bank created its own Community Development Corporation (CDC) to promote and assist in community development efforts. The board of directors for the CDC, which meets on an annual basis, is comprised of bank management. The CDC recently funded a project providing local housing opportunities for people with AIDS.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Conclusion/Support

The institution has actively supported projects promoting economic growth consistent with its size, financial capacity, and location. Berkeley County, West Virginia, is located in the eastern panhandle of the State approximately 80 miles from the metropolitan areas of Washington, D. C. and Baltimore, Maryland. The county's close proximity to these areas has contributed to a significant growth rate. According to 1990 census information, Berkeley County has a population of 59,253 and is West Virginia's fastest growing county. Its economy appears strong with an unemployment rate of 4.1% as of July 1996, compared to a Statewide jobless rate of 6.5%. A diverse mix of industry provides employment to the area, including a glassware production plant for Corning Glass, an auto parts distribution center for General Motors, a Veterans Administration Medical Center, and a group of shopping malls. Many residents also travel to the Washington, D. C. area for job opportunities.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Conclusion/Support

Donations of financial and technical assistance are routinely provided to a variety of local charities, nonprofit organizations, and schools. Since January 1995, the institution has contributed a total of \$13,485 to charitable organizations.

Conclusion/Support--contd.

Bank personnel routinely provide community services targeted to low- and moderate-income individuals or small businesses within the delineated market area. In particular, a member of senior management participates with a local homeless coalition in providing instructional sessions to low-income individuals on the topics of savings plans, the basic operation of a checking account, and budgeting skills. In addition, a member of the CRA management committee recently conducted a seminar to inform small business owners of different financing options for small enterprises.

The institution also offers a "budget checking account" which is designed for low- and moderate-income customers. This account requires no minimum balance and charges no transaction fees.

There appear to be no restrictions on the bank's ability to provide credit to the community consistent with its human and financial resources.

Regression Program Usage Report

(This form should be filled out for each examination conducted involving a HMDA reporter.)

Institution Name: F & M Bank-Martinsburg

City, Street: Martinsburg, West Virginia

Exam Date: August 19, 1996

Number of HMDA LAR records: 191

Year(s) of data considered: 1995

	FHA, VA, & FmHA HOME Purchase		Conventional Home Purchase		Refinancings		Home Improvement	
	1995	Year	1995	Year	1995	Year	1995	Year
White Approvals	0		51		54		25	
White Denials	0		32		9		14	
Minority Approvals	0		3		0		1	
Minority Denials	0		1		0		1	

Was Step 1 of regression program run? N

if "N", why not? Insufficient minority application activity

What grouping(s) of data (i.e, loan type, location, year(s), etc.) were used?

MIN Pr > Chi Square Value

- (1) _____
- (2) _____
- (3) _____
- (4) _____
- (5) _____
- (6) _____

- _____
- _____
- _____
- _____
- _____
- _____

Results from Regression Step 2

(Fill this page out for each grouping on which step 2 was run.)

Standard Variables which were not needed for Step 2:

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Judgmental Variables which were collected for Step 2:

_____	Cash Available for Closing	_____	Special Loan Program
_____	Refi from Same Lender	_____	Cash Out vs No Cash Out
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Value of MIN Pr > Chi-Square: _____

Number of Minority Rejections: _____

Number of "Dominant Pairs": _____

Explain which files pair analysis used: _____

What additional factors explained away pairs? _____

Were pairs of loan files given to bank for explanation? Y N

Examiner hours spent specifically on regression: _____