

PUBLIC DISCLOSURE

October 21, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers and Merchants Bank of Stanley

05512680

P.O. Box 10

Stanley, Virginia 22851

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

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 Community Reinvestment Act (CRA) performance of Farmers and Merchants Bank of Stanley, Stanley, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of October 21, 1996. 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 Outstanding.

The bank's loan-to-deposit ratio appears reasonable in relation to demand for credit in the assessment area. A majority of loans sampled during the examination were extended to borrowers residing within the assessment area. Furthermore, a substantial portion of consumer credit extensions were provided to low- and moderate-income borrowers. The assessment area consists solely of middle-income census tracts; therefore, distribution of lending by income level of geographies was not considered in this evaluation.

The following table indicates the performance level of Farmers and Merchants Bank of Stanley with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Farmers and Merchants Bank of Stanley</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	Not applicable.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Farmers and Merchants Bank of Stanley operates three offices located in Page County, Virginia. As of June 30, 1996, the bank had assets of approximately \$81.6 million, of which 65% were loans. Various deposit and loan products are available through the institution, including loans for residential mortgage, commercial, consumer, and agricultural purposes. The loan portfolio as of June 30, 1996, was comprised of the following: 74% real estate secured (consumer and business), 18% consumer, and 8% commercial. Based on lending volume during the previous six months, consumer loans were identified as the principal credit product offered by the bank. The institution's previous CRA rating was satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area encompasses all of Page County and the following two census tracts in Rockingham County:

101.98

102.00

All of the census tracts in the local community are considered middle-income. According to the 1990 census, the population of the assessment area is 28,015. Although primarily rural, the area benefits from a sound industrial base that includes major employers such as Wrangler (men's and women's clothing), Wampler Longacre Chicken (poultry processing), The Genie Company (garage door openers), and Lear AI Division (automotive interiors). As of August 1996, the unemployment rates for the Commonwealth of Virginia, Page County, and Rockingham County were 4%, 3%, and 2.1%, respectively. A community contact was performed during the examination to further assist in evaluating the bank's CRA performance. A representative from an economic development organization revealed that local financial institutions have been active in meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The average loan-to-deposit ratio for the previous four quarters is 72% and is considered reasonable given the institution's size, location, financial capacity, and current local economic conditions. The bank's level of lending is responsive to the area's loan demand. The average loan-to-deposit ratio for banks headquartered in nonmetropolitan areas of Virginia of similar asset size to Farmers and Merchants Bank is 67%.

LENDING IN ASSESSMENT AREA

A sample of 105 recently extended consumer loans was reviewed to determine the bank's lending distribution within its assessment area. This sample included 52 motor vehicle loans and 53 unsecured instalment loans, since these two loan categories represent the largest volume of recent originations. The motor vehicles loans sampled were either secured by or were for the purchase of used automobiles. As illustrated in the chart below, a substantial majority of the number and dollar amounts of the sampled loans have been provided to residents of the area.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	101	4	105
Percentage of Total Loans	96%	4%	100%
Total Amount of Loans (000's)	\$427	\$36	\$463
Percentage of Total Amount	92%	8%	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES

Information about applicant income was gathered for the sampled loans located in the assessment area. The bank relies on net income of the borrower as part of its credit decision process. The following charts illustrate the distribution of unsecured and motor vehicle loans extended to borrowers of different income levels.

Distribution of Loans by Income Level of Borrower

Unsecured Instalment Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	26	14	9	2	51
Percentage of Total Loans	51%	27%	18%	4%	100%
Total Amount of Loans (000's)	\$32	\$30	\$34	\$7	\$103
Percentage of Total Amount	31%	29%	33%	7%	100%

Motor Vehicle Loans

Distribution of Loans by Income Level of Borrower

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	18	21	9	2	50
Percentage of Total Loans	36%	42%	18%	4%	100%
Total Amount of Loans (000's)	\$68	\$147	\$70	\$40	\$325
Percentage of Total Amount	21%	45%	22%	12%	100%

The volume of this lending to low- and moderate-income residents (78% for both loan products) substantially exceeds the proportion of such families in the assessment area. Low- and moderate-income families comprise 17% and 19% of the assessment area, respectively. It was determined that considering gross income rather than net would likely lower the percentages of total loans in these two income categories; however, using either net or gross income, lending to low- and moderate-income residents would be significant. Given the demographics of the area, the institution's distribution of lending to borrowers reflects an excellent penetration among individuals of different income levels.

GEOGRAPHIC DISTRIBUTION OF LOANS

Distribution of Loans in Assessment Area by Income Level of Census Tract

As previously mentioned, the bank's assessment area is entirely comprised of middle-income census tracts. Therefore, 100% of the number and dollar amount of loans extended within the assessment area were in middle-income census tracts.

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. A violation of the technical requirements of the Equal Credit Opportunity Act's Regulation B was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.