

PUBLIC DISCLOSURE

April 8, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers & Merchants Bank of Craig County

05511860

P.O. Box 399

New Castle, Virginia

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 The Farmers & Merchants Bank of Craig County prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of April 8, 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 Farmers & Merchants Bank of Craig County has a loan-to-deposit ratio that is considered reasonable for the assessment area. Based on a sample of loans, performance regarding lending in the bank's market and to borrowers of different income levels demonstrate a strong responsiveness to local community credit needs that exceeds performance expectations. The assessment area contains only middle-income block numbering areas or census tracts; therefore, distribution of lending by income level of geographies was not considered in assigning the CRA rating.

The following table indicates the performance level of The Farmers & Merchants Bank of Craig County with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE FARMERS & MERCHANTS BANK OF CRAIG COUNTY</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 have been received since the prior examination		

DESCRIPTION OF INSTITUTION

The Farmers and Merchants Bank of Craig County has one office in New Castle which is located in Craig County, Virginia. As of December 31, 1995, the institution had assets of \$27.5 million. The bank's primary focus is on consumer lending with nearly 78% of its loan portfolio composed of consumer loans and loans secured by 1-4 family residential properties. Commercial and farm loans are also available for a variety of business needs.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is defined as the entire county of Craig, which contains three census tracts including two with no population, as well as the following census tracts or Block Numbering Areas (BNAs) located in surrounding counties:

Giles County

9901

Botetourt County

401

Roanoke County

301

The assessment area is situated in the south central portion of the Commonwealth bordering the state of West Virginia. The Jefferson National Forest constitutes a large portion of the land in the area. Craig County had a 1990 population of 4372 people, of which less than 1% are minorities. Approximately 37% of local families are considered low- and moderate-income while middle and upper-income families comprise 21% and 42% of the area population, respectively. Employment opportunities are limited inside Craig County, and a majority of its residents commute to the neighboring cities of Roanoke, Blacksburg or Covington for work. The major area employers are Westvaco, Radford Ammunition and Arsenal, and Virginia Polytechnic Institute and State University. As of February 1996, the unemployment rates for Craig, Giles, Roanoke, and Botetourt Counties were 4.5%, 7.2%, 1.9%, and 2.5% respectively, compared to a statewide rate of 4.3%. A public official contacted during the examination indicated that the Roanoke Valley region of the Commonwealth continues to benefit from sustained economic growth, as reflected in the aforementioned unemployment figures.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's average loan-to-deposit ratio for the previous five quarters was approximately 70%. This ratio is reasonable given local economic conditions that suggest steady credit demand and considering the institution's size, financial condition, and location.

LENDING IN ASSESSMENT AREA

A sample of 170 recently extended consumer loans was reviewed to determine the institution's lending activity within its assessment area. The sample consisted of 102 unsecured loans and 68 real estate loans that are included in the table below.

Comparison of Credit Extended Inside and Outside of Assessment Area

Total Loans

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	162	8	170
Percentage of Total Loans	95%	5%	100%
Total Amount of Loans (000's)	\$3,200	\$197	\$3,397
Percentage of Total Amount	94%	6%	100%

As illustrated in the table, almost all of the number and dollar amount of the sampled loans were provided to residents of the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The following table shows the volume of lending to borrowers of different incomes.

Distribution of Loans by Income Level of Borrower

Total Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	44	36	49	33	162
Percentage of Total Loans	27%	22%	30%	21%	100%
Total Amount of Loans (000's)	\$204	\$546	\$1,089	\$1,361	\$3,200
Percentage of Total Amount	6%	17%	34%	43%	100%

Nearly half (49%) of the loans sampled from within the assessment area were extended to low- and moderate-income borrowers. The volume of this lending activity exceeds the proportion of such residents (37%) living within Craig County.

GEOGRAPHIC DISTRIBUTION OF LOANS

Of the two low-income BNAs located within the assessment area, neither are populated. The remainder of the assessment area is entirely composed of middle-income tracts or BNAs. Therefore, 100% of the loans extended within the assessment area were in these middle-income tracts or BNAs.

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. Violations of the technical aspects of the Equal Credit Opportunity Act's Regulation B were noted. Adequate policies, procedures and training programs have been developed to support nondiscrimination in lending activities.