



PUBLIC DISCLOSURE

April 4, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers & Merchants Bank

Timberville, Virginia

**Federal Reserve Bank of Richmond
Richmond, Virginia**

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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713926

205 South Main Street

Timberville, Virginia 22853

Federal Reserve Bank of Richmond

P. O. Box 27622

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INSTITUTION RATING

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered more than reasonable given the bank's size, financial condition, and credit needs of its assessment areas.
- A majority of the institution's Home Mortgage Disclosure Act (HMDA), small business, and consumer motor vehicle loans considered in the evaluation were originated within the bank's assessment areas.
- The bank demonstrated reasonable penetration among individuals of different income (including low- and moderate-income) levels and businesses of different sizes.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The bank's community development performance demonstrates excellent responsiveness to the community development needs of its assessment areas through the bank's involvement in community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities in bank's assessment areas.
- The institution has not received any complaints regarding its CRA performance since the previous evaluation.

SCOPE OF EXAMINATION

Farmers & Merchants Bank (FMB) was evaluated using the interagency examination procedures for intermediate small banks developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures, residential mortgage loans reported by the institution in accordance with the HMDA during calendar years 2019 and 2020 were reviewed. Additionally, small business and consumer motor vehicle lending were identified as primary product lines and were also considered in the evaluation. The analysis included a sample of 166 small business loans originated in 2020 (out of a universe of 884 loans totaling \$68.1 million) and 200 consumer motor vehicle loans originated in 2021 (out of a universe of 3,269 loans totaling \$58.8 million) originated by the bank.

Qualified community development loans and services are considered for activities since the previous evaluation (October 22, 2018). All qualified investments made during this same period and those outstanding as of the date of this evaluation, regardless of when made, were also considered.

Based on the FFIEC's evaluation procedures, ratings are assigned to the institution and are based only on the performance in the assessment areas subject to full-scope review. Because of the relative size as determined by loan activity, proportion of bank deposits, and market population, full-scope evaluation procedures were applied to the Harrisonburg-Staunton VA Combined Statistical Area (CSA) assessment area. The Shenandoah County, VA NonMSA assessment area was subject to the limited review procedures provided for by the FFIEC, and a determination was made as to whether the performance was consistent with the institution's overall assigned ratings. Following the opening of a new branch in May 2021, the bank created a new assessment area known as the Winchester, VA assessment area. Because all of the HMDA and small business loan data considered in this analysis pre-dates the assessment area, the bank's performance in the Winchester, VA assessment area was not evaluated.

Appendix B includes information detailing the lending volume, branch locations, and deposit volume by assessment area.

DESCRIPTION OF INSTITUTION

FMB is headquartered in Timberville, Virginia and operates 13 full-service branch offices in the northwestern Shenandoah Valley region of Virginia. The institution is a wholly-owned subsidiary of the F&M Bank Corporation, a single bank holding company, also located in Timberville, Virginia. The bank operates a mortgage subsidiary, F&M Mortgage, which originates conventional and government-sponsored mortgage loans for sale on the secondary market. All loans originated by F&M Mortgage are reported on the bank’s HMDA loan application register and are included in the evaluation of the bank’s lending performance. This evaluation considers the community development activities of FMB and does not consider the activities of any other entities affiliated with FMB. The bank’s previous CRA rating, dated October 22, 2018, was Satisfactory. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment areas.

As of December 31, 2021, FMB had total assets of \$1.2 billion, of which 54.1% were net loans and 33.2% were securities. As of the same date, deposits totaled \$1.1 billion. Various deposit and loan products are available through the institution, including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio (using gross loans) as of December 31, 2021, is depicted in the following table.

Composition of Loan Portfolio

Loan Type	12/31/2021	
	\$(000s)	%
Secured by 1-4 Family dwellings	194,948	29.2
Multifamily	4,887	0.7
Construction and Development	75,236	11.3
Commercial & Industrial/ NonFarm NonResidential	200,762	30.1
Consumer Loans and Credit Cards	111,721	16.7
Agricultural Loans/ Farmland	72,812	10.9
All Other	7,218	1.1
Total	667,584	100.0

As indicated in the preceding table, FMB is an active residential mortgage, commercial, and consumer lender. The table is based on loans held within the bank’s portfolio and does not consider loans that were originated and subsequently sold. In addition, small business loans are a subset of the larger commercial loan business line. When considering recent origination volume, a majority of consumer loans were loans for consumers to purchase motor vehicle loans. As previously noted, FMB’s residential mortgage, small business, and consumer motor vehicle loans are considered primary products and included in this evaluation.

In April 2020, the Small Business Administration (SBA) created the Paycheck Protection Program (PPP). This program was designed to allow workforces to remain employed and promote economic stability during the coronavirus (COVID-19) pandemic. While banks were not required to participate in the SBA’s PPP lending program, FMB was an active participant. Since the program’s inception, FMB has originated 1,080 PPP loans totaling approximately \$87.1 million. The bank’s participation in this program demonstrates its responsiveness to area credit needs during the pandemic.

FMB also continues to maintain a partnership with Way to Go, Inc. Way to Go is a community development organization that provides reliable transportation to low- and moderate-income individuals within the bank’s assessment area. FMB provides funding for the individuals who qualify for Way to Go’s automobile program. Since the previous examination, FMB has originated 25 loans totaling approximately \$79,000. While some of these loans may be represented in the consumer motor vehicle sample, FMB’s participation in this program demonstrates its responsiveness to the credit needs of the assessment area.

FMB serves three contiguous assessment areas located in the northwest portion of Virginia. The Harrisonburg-Staunton, VA CSA assessment area includes all of the Harrisonburg, VA metropolitan statistical area (MSA) and all of the Staunton, VA MSA. The Winchester, VA assessment area includes a portion of the larger Winchester, VA-WV MSA. These two assessment areas are separated by Shenandoah, VA NonMSA assessment area, which is a rural community. The following table details the composition of the bank’s assessment areas.

Assessment Area Composition		
Assessment Area Name	County	Census Tracts Included
Harrisonburg-Staunton, VA CSA	Harrisonburg City	All
	Rockingham County	All
	Augusta County	All
	Staunton City	All
	Waynesboro City	All
Shenandoah, VA NonMSA	Page County *	All
	Shenandoah County	All
Winchester, VA	Winchester City	All
	Frederick County	All

* As of 2021, Page County is no longer a part of the assessment area because the bank closed its only branch in Page County.

Since its previous CRA evaluation, FMB opened one branch in Winchester, VA in May 2021, which caused the creation of the Winchester, VA assessment area. As previously noted, the bank’s performance was not evaluated in this assessment area because the bank only recently opened its only branch in the assessment area.

In July 2020, FMB also closed a branch in Luray, VA. Consequently, bank management removed Page County from the Shenandoah, VA NonMSA assessment area in 2021.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

When evaluating the bank’s performance, relevant area demographic data from the 2015 American Community Survey (ACS) is used as a proxy for demand. ACS data is collected and published by the U.S. Census Bureau on an annual basis, the demographic data relied upon in this performance evaluation is based on ACS data that is updated once every five years. As such, when evaluating the bank’s performance, relevant area demographic data is derived from both 2015 ACS and 2020 Dun and Bradstreet (D&B) business data.

Aggregate HMDA from 2019 and 2020 and aggregate small business data from 2020 are also used as proxies for demand when evaluating the bank’s residential and small business lending performance. The data includes all lenders subject to reporting such data within the bank’s assessment areas. Because FMB is not subject to data reporting for CRA, its small business lending activity is not included in the small business loan aggregate data. Aggregate consumer loan data is not maintained by the regulatory agencies and thus, cannot be considered in the analysis.

While HMDA loan data from calendar years 2019 and 2020 were fully analyzed and considered in the evaluation, only bank and aggregate data from 2020 for HMDA lending are presented in the assessment area tables. In instances where the 2019 HMDA performance varies significantly from the performance noted during 2020, such variances and the corresponding impact on the overall performance are discussed.

As previously stated, reported residential mortgage loan data from calendar years 2019 and 2020 as well as samples of originated small business loans for 2020 and consumer motor vehicles loans for 2021 were fully analyzed and considered in this evaluation. During 2020 the bank reported a total of 890 HMDA loans totaling \$186.6 million and also originated 884 small business loans totaling \$68.1 million. During 2021, FMB originated 3,269 consumer motor vehicle loans totaling \$58.8 million. Given these dollar volumes, the bank’s HMDA performance was weighted more heavily than its small business and consumer motor vehicle loan performance.

The geographic and borrower distribution performance of HMDA loans focused on performance for Home Purchase, Home Improvement, Refinancing, and Multi-family loan categories. Performance for the Not Applicable, Other Closed, and Other Line of Credit loan categories was not evaluated because not all HMDA reporters are required to report each loan category, or the category contains relatively few loans overall.

During 2020, the bank was an active participant in the SBA’s PPP. Consistent with data collection and reporting requirements of the program, financial institutions were not required to collect borrower revenue information to underwrite PPP loans. As PPP loans represent a large portion of FMB’s small business lending in 2020, examiners evaluated 2020 small business borrower distribution performance using loan size, as performance context information for PPP loans without revenue information.

Loan-To-Deposit Ratio

FMB’s loan-to-deposit ratio averaged 94% for the 14-quarter period ending December 31, 2021. In comparison, the average quarterly loan-to-deposit ratios for four similarly situated institutions that operate in at least one of FMB’s assessment areas ranged from 74.8% to 83.5% during the same 14-quarter period. The bank’s loan-to-deposit ratio is considered more than reasonable given the institution’s size, financial condition, market conditions, and local credit needs.

Lending in Assessment Area

To determine the institution’s volume of lending within its assessment areas, the geographic location of the bank’s HMDA, small business, and consumer motor vehicle loans included in this evaluation were considered. The lending distribution inside and outside of the bank’s assessment areas is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Purchase	902	88.9	184,603	88.7	113	11.1	23,521	11.3
Home Improvement	31	91.2	3,971	90.1	3	8.8	438	9.9
Refinancing	522	93.0	103,544	91.4	39	7.0	9,728	8.6
Multi-Family Housing	2	66.7	1,010	80.9	1	33.3	239	19.1
Loan Purpose Not Applicable	0	0.0	0	0.0	0	0.0	0	0.0
Other Purpose Closed/Exempt	11	100.0	436	100.0	0	0.0	0	0.0
Other Purpose LOC	0	0.0	0	0.0	0	0.0	0	0.0
Total HMDA related	1,468	90.4	293,564	89.6	156	9.6	33,926	10.4
Small Business*	155	93.4	13,142	86.3	11	6.6	2,088	13.7
Consumer Loans	121	60.5	2,135	58.4	79	39.5	1,518	41.6
TOTAL LOANS	1,744	87.6	308,841	89.2	246	12.4	37,532	10.8

*The number and dollar amount of loans reflects a sample of such loans originated during the evaluation period and does not reflect loan data collected or reported by the institution.

As previously noted, the evaluation includes two years of reported HMDA data (i.e. 1,624 loans) and a sample of one year of both small business and consumer motor vehicle loans. As previously noted, the universe of small business loans totaled 884 during 2020, and the universe of consumer motor vehicle loans totaled 3,269 during 2021. Given these volume levels, the level of consumer motor vehicle loans in the bank’s assessment areas has a greater impact on FMB’s overall level of lending inside its assessment areas than the other two products. After accounting for this difference, a majority of loans considered in the evaluation were extended to residents within the bank’s assessment areas.

Lending to Borrowers of Different Incomes and To Businesses of Different Sizes

The bank's distribution of lending to borrowers of different income levels (including low- and moderate-income) and businesses of different revenue sizes is considered reasonable for HMDA, small business, and consumer motor vehicle lending.

Geographic Distribution of Loans

The bank's overall geographic distribution of lending is reasonable for HMDA, small business, and consumer motor vehicle lending.

Community Development Loans, Investments, and Services

FMB's performance under the community development test is considered Outstanding. The bank demonstrates an excellent responsiveness to local community needs through qualified community development loans, investments, and providing financial expertise and other support to local organizations providing community development services. Qualified community development activities that benefit the statewide area include the following:

- Twelve equity investments totaling \$6.8 million in the Virginia Community Development Corporation (VCDC) Housing Equity Funds. The VCDC is a non-profit organization that provides affordable housing and economic redevelopment throughout the Commonwealth of Virginia.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

METROPOLITAN AREAS
(For metropolitan areas reviewed using full-scope review)

**DESCRIPTION OF INSTITUTION’S OPERATIONS IN HARRISONBURG-STAUNTON, VA
CSA**

FMB’s Harrisonburg-Staunton, VA CSA assessment area is located in the northwestern portion of the Shenandoah Valley in Virginia. The assessment area includes the counties of Augusta and Rockingham, as well as the cities of Staunton and Harrisonburg. The bank operates ten full-service branches within the assessment area. As of June 30, 2021, the bank ranked 2nd of 18 institutions in deposit market share according to data compiled by the Federal Deposit Insurance Corporation and held 15.4% of the assessment area’s deposits (credit unions are not included). According to the 2021 HMDA aggregate data, FMB ranks fourth out of 338 reporters with a 4.8% market share.

According to ACS data from 2015, the assessment area had a population of 248,569 and a median housing value of \$190,053. The owner-occupancy rate for the assessment area equaled 58.6%, which exceeded the rate of the Harrisonburg, VA MSA (54.4%) and lagged the owner-occupancy rates for the Staunton-Waynesboro, VA MSA (62.7%) and the Commonwealth of Virginia (59.2%). Within the assessment area, 9.2% of families were considered below the poverty level, which exceeded both the Staunton-Waynesboro, VA MSA (8.9%) and the Commonwealth of Virginia (8.2%) percentages, but was below the percentage of families in the Harrisonburg, VA MSA (9.6%).

As indicated in the following table, median family incomes declined during 2021. The decrease is primarily attributed to the pandemic’s effect on the local economy.

	Median Family Income		
	2019	2020	2021
Harrisonburg, VA MSA	\$70,700	\$71,900	\$66,700
Staunton, VA MSA	\$69,200	\$71,400	\$71,200

The following table includes pertinent demographic data for the assessment area.

Assessment Area Demographics

Harrisonburg-Staunton VA CSA								
<i>(Based on 2015 ACS Data and 2020 D&B Information)</i>								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	2	3.7	465	0.8	236	50.8	11,864	19.2
Moderate	7	13.0	7,254	11.7	1,302	17.9	11,668	18.9
Middle	39	72.2	48,117	77.8	3,909	8.1	14,019	22.7
Upper	6	11.1	5,977	9.7	262	4.4	24,262	39.2
NA	0	0.0	0	0.0	0	0.0		
Total	54	100.0	61,813	100.0	5,709	9.2	61,813	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	197	0.3	1,950	2.1	1,308	67.1	21,432	22.9
Moderate	5,908	9.6	12,180	13.0	2,981	24.5	15,952	17.0
Middle	49,633	80.3	71,138	76.0	8,462	11.9	17,723	18.9
Upper	6,093	9.8	8,334	8.9	648	7.8	38,495	41.2
NA	0	0.0	0	0.0	0	0.0		
Total	61,831	100.0	93,602	100.0	13,399	14.3	93,602	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	301	3.0	269	2.9	29	3.9	3	3.3
Moderate	1,328	13.0	1,213	13.0	93	12.4	22	23.9
Middle	7,419	72.9	6,827	73.1	528	70.7	64	69.6
Upper	1,135	11.1	1,035	11.0	97	13.0	3	3.2
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	10,183	100.0	9,344	100.0	747	100.0	92	100.0
	Percentage of Total Businesses:			91.8		7.3		0.9

*NA-Tracts without household or family income as applicable

The assessment area has a diverse mix of employers throughout the region. Manufacturing, retail, local municipalities/governments, and health care are the main business sectors. Major employers include Augusta Medical Center, James Madison University, McKee Foods Corporation, Wal-Mart stores, Hershey's Chocolate of Virginia, Target stores, and local government.

The following table reflects recent and historical average annual area unemployment rates.

Harrisonburg-Staunton, VA CSA Assessment Area Unemployment Rates					
Area	2016	2017	2018	2019	2020
Augusta County	3.6%	3.4%	2.7%	2.4%	4.6%
Rockingham County	3.5%	3.2%	2.6%	2.3%	4.7%
Harrisonburg City	4.8%	4.4%	3.5%	3.1%	6.4%
Staunton City	3.8%	3.6%	2.8%	2.6%	6.3%
Waynesboro City	4.1%	4%	3.2%	2.8%	6.5%
Harrisonburg, VA MSA	3.9%	3.7%	2.9%	2.6%	5.3%
Staunton, VA MSA	3.7%	3.5%	2.8%	2.5%	5.3%
Virginia	4%	3.7%	2.9%	2.78%	6.2%

Source: Bureau of Labor Statistics(BLS), Local Area Unemployment Statistics

As indicated in the table, area unemployment rates increased sharply during 2020. This increase is primarily attributed to the pandemic’s effect on the local economy.

Interviews were conducted recently with officials from local community and economic development organizations. The contacts stated that the current economic conditions within the market were improving after faltering in 2020. While financial institutions are meeting the credit needs of the assessment area, opportunities exist for banks to provide innovative funding vehicles to spur entrepreneurship. One of the individuals contacted also suggested that more professional and/or technical skill job training within the market area would help lower income individuals improve their economic status. Both individuals contacted indicated that job openings remain high as people are slow to re-enter the workforce following the pandemic.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FMB’s borrower distribution performance is considered reasonable for each loan product included in the evaluation.

Distribution of HMDA Loans by Income Level of Borrower

Harrisonburg-Staunton VA CSA (2020)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	HMDA Totals							
Low	47	6.6	6,491	4.3	668	7.8	79,510	4.5
Moderate	181	25.5	28,826	19.1	2,260	26.2	361,455	20.7
Middle	213	30.0	42,008	27.9	2,328	27.0	455,580	26.1
Upper	270	37.9	73,267	48.7	3,360	39.0	851,084	48.7
Total	711	100.0	150,592	100.0	8,616	100.0	1,747,629	100.0
Unknown	24		4,975		1,981		548,911	

Percentages (%) are calculated on all loans where incomes are known

During 2020, FMB’s HMDA lending to low-income borrowers (6.6%) lagged the percentage of low-income families within the assessment area (19.2%), but approximated the aggregate level of lending (7.8%). FMB’s lending to moderate-income borrowers (25.5%) exceeded the percentage of moderate-income families (18.9%) and was comparable to the aggregate lending level (26.2%). The bank’s performance during 2020 is considered reasonable, and its performance during 2019 is similar.

Distribution of Lending by Loan Amount and Size of Business

Harrisonburg-Staunton VA CSA (2020)								
<i>by Revenue</i>	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	41	29.9	3,005	25.0	1,594	40.5	66,631	28.8
Over \$1 Million	19	13.9	3,995	33.2	NA	NA	NA	NA
<i>Unknown</i>	77	56.2	5,029	41.8	NA	NA	NA	NA
<i>by Loan Size</i>								
\$100,000 or less	108	78.8	3,288	27.3	3,419	86.8	75,175	32.5
\$100,001-\$250,000	18	13.1	2,825	23.5	304	7.7	49,930	21.6
\$250,001-\$1 Million	11	8.1	5,915	49.2	216	5.5	105,904	45.9
Total	137	100.0	12,028	100.0	3,939	100.0	231,009	100.0

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data from 2020 indicates that 91.8% of all local businesses have revenues that do not exceed \$1 million per year. Of the small business loans considered in the evaluation, 29.9% were to businesses with revenues of \$1 million or less. The percentage of FMB’s small business loans extended to businesses with revenues of \$1 million or less was impacted by a large volume of loans in the sample for which borrower revenue was unknown (i.e. 56.2% of the overall sample). As previously noted, FMB was an active PPP during 2020, and the PPP loan program did not require the collection or consideration of borrower revenue data. Consequently, large volumes of small business loans were originated during 2020 for which borrower revenue is unknown.

Although FMB does not collect or report its small business loan data, aggregate small business data was also considered as an element of performance context in evaluating FMB’s distribution by business revenue. During 2020, 40.5% of all reported small business loans were to businesses with annual revenues of \$1 million or less. The remaining portion of loans were to businesses that either had revenues exceeding \$1 million or had unknown revenues. The 2020 aggregate small business loan data also includes an unknown volume of PPP, which limits its usefulness in evaluating the FMB’s performance.

FMB’s PPP loans included in the overall sample of small business loans within this assessment area were also evaluated using loan size as a proxy for such loans where revenue was not known. The following table reflects this distribution.

Distribution of Sampled PPP Small Business Loans with Unknown Revenue by Loan Size

Harrisonburg-Staunton, VA CSA (2020)				
Loan Size	#	%	\$(000s)	%
\$100,000 or less	63	81.8%	\$1,566	31.2%
> \$100,000 to \$250,000	9	11.7%	\$1,414	28.1%
> \$250,000 to \$1,000,000	5	6.5%	\$2,049	40.7%
Total	77	100%	\$5,029	100%

Within the Harrisonburg-Staunton, VA CSA assessment area, a large majority (i.e. 81.8%) of PPP small business loans for which borrower revenue was not known had loan amounts of \$100,000 or less, indicating that the bank is helping to serve the beds of small businesses in the assessment area. In addition, when borrower revenues were known, a majority of FMB’s small business loans were to businesses with annual revenues of \$1 million or less (i.e. 41 of 60). The bank’s performance is considered reasonable.

Distribution of Consumer Loans by Income Level of Borrower

Harrisonburg-Staunton, VA CSA (2021)				
Income Categories	#	Consumer Loans		
		%	\$(000s)	% \$
Low	18	17.5	226	12.2
Moderate	28	27.2	504	27.2
Middle	28	27.2	495	26.7
Upper	29	28.1	631	33.9
Total	103	100.0	1,856	100.0
Unknown	0		0	

Percentage's (%) are calculated on all loans where incomes are known

The bank's level of consumer motor vehicle lending to low-income borrowers (17.5%) was lower than the percentage of low-income households in the assessment area (22.9%). Conversely, lending to moderate-income borrowers (27.2%) exceeded the proportion of moderate-income households (17%) within the assessment area. FMB's lending to low- and moderate-income borrowers within the assessment area is considered reasonable overall.

Geographic Distribution of Loans

The bank’s geographic distribution performance is considered reasonable for its HMDA, small business, and consumer motor vehicle lending within this assessment area.

Distribution of HMDA Loans by Income Level of Census Tract

Harrisonburg-Staunton VA CSA (2020)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(377)				Home Purchase (4,314)			
Low	3	0.8	269	0.3	33	0.8	5,043	0.5
Moderate	38	10.1	7,013	8.6	521	12.1	102,197	10.8
Middle	272	72.1	55,352	67.8	3,197	74.1	685,850	72.3
Upper	64	17.0	18,959	23.3	563	13.0	154,920	16.4
	(341)				Refinance (5,885)			
Low	5	1.5	1,004	1.4	31	0.5	6,762	0.6
Moderate	28	8.2	4,508	6.4	533	9.1	99,359	8.2
Middle	252	73.9	50,883	72.2	4,440	75.4	891,499	73.6
Upper	56	16.4	14,062	20.0	881	15.0	213,652	17.6
	(16)				Home Improvement (353)			
Low	0	0.0	0	0.0	3	0.8	399	1.6
Moderate	2	12.5	350	13.1	31	8.8	2,097	8.5
Middle	11	68.8	1,686	63.2	259	73.4	17,312	70.0
Upper	3	18.7	631	23.7	60	17.0	4,934	19.9
	(1)				Multi-Family (44)			
Low	0	0.0	0	0.0	4	9.1	1,337	1.2
Moderate	1	100.0	850	100.0	5	11.4	11,854	10.6
Middle	0	0.0	0	0.0	34	77.3	98,885	88.0
Upper	0	0.0	0	0.0	1	2.2	200	0.2
	HMDA Totals							
Low	8	1.1	1,273	0.8	71	0.7	13,541	0.6
Moderate	69	9.4	12,721	8.2	1,090	10.3	215,507	9.4
Middle	535	72.8	107,921	69.4	7,930	74.8	1,693,546	73.8
Upper	123	16.7	33,652	21.6	1,505	14.2	373,706	16.2
NA*	NA	NA	NA	NA	NA	NA	NA	NA
Total	735	100.0	155,567	100.0	10,596	100.0	2,296,300	100.0

NA*-Tracts without household or family income as applicable

During 2020, home purchase and refinance loans were the primary home mortgage loan types reported by FMB and the aggregate lenders. In general, FMB’s home purchase and refinance lending percentages in low- and moderate-income census tracts approximated the percentages of such lending by the aggregate lenders. FMB’s home purchase and refinance performances are each considered reasonable. Within the assessment area, comparatively few home improvement and multi-family loans were reported by FMB and the aggregate lenders. Consequently, the performance of these loan categories had a limited impact on FMB’s overall performance.

Overall, FMB’s level of lending in low-income census tracts (1.1%) exceeded both the percentage of owner-occupied housing units located in such areas (.3%) and the aggregate level of lending in such tracts (.7%). However, the overall volume of lending is relatively low given the limited number of owner-occupied housing units located in low-income census tracts. FMB’s residential mortgage lending in moderate-income census tracts (9.4%) approximated the percentage of owner-occupied units located in moderate-income census tracts (9.6%) and the percentage of lending by the aggregate reporters (10.3%). FMB’s performance during 2020 is reasonable, and its performance during 2019 is substantially similar.

Distribution of Small Business Loans by Income Level of Census Tract

Harrisonburg-Staunton VA CSA (2020)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	2	1.5	83	0.7	90	2.3	4,749	2.1
Moderate	17	12.4	1,380	11.5	527	13.5	30,767	13.4
Middle	96	70.1	6,916	57.5	2,825	72.2	168,226	73.1
Upper	22	16.0	3,650	30.3	469	12.0	26,276	11.4
NA*	NA	NA	NA	NA	NA	NA	NA	NA
Total	137	100.0	12,029	100.0	3,911	100.0	230,018	100.0

*NA-Tracts without household or family income as applicable
 Loans where the geographic location is unknown are excluded from this table.

The bank’s level of small business lending in low-income census tracts (1.5%) lagged the percentage of area businesses (3%) and the aggregate lending level in such tracts (2.3%). However, the relatively small percentage of businesses and aggregate lending located in such census tracts indicates that demand for such lending is relatively limited. FMB’s level of small business lending in moderate-income census tracts (12.4%) approximated the percentage of area businesses (13%) and the aggregate lending level (13.5%) in such tracts. FMB’s overall small business lending geographic distribution performance is considered reasonable.

Distribution of Consumer Loans by Income Level of Census Tract

Harrisonburg-Staunton, VA CSA (2021)				
Income Categories	Consumer Loans			
	#	%	\$(000s)	% \$
Low	2	1.9	28	1.5
Moderate	11	10.7	227	12.2
Middle	81	78.6	1,401	75.5
Upper	9	8.8	200	10.8
NA*	NA	NA	NA	NA
Total	103	100.0	1,856	100.0

*NA-Tracts without household or family income as applicable
 Loans where the geographic location is unknown are excluded from this table.
 Originations and Purchases

FMB’s level of consumer motor vehicle lending (1.9%) was comparable to the percentage of households located in low-income census tracts (2.1%). Conversely, the bank’s lending in moderate-income census tracts (10.7%) lagged the percentage of households (13%) located in these tracts within the assessment area. However, there are concentrations of impoverished households within the assessment area. Specifically, 67.1% of all households in low-income census tracts and 24.5% of all households in moderate-income census tracts are below the poverty level. Such concentrations of impoverished households likely reduce the level of viable borrower demand from households within these census tracts. Given this context, the bank’s performance is considered reasonable.

Community Development Loans, Investments, and Services

Discussions with individuals knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that community development opportunities are reasonably available within the bank's assessment area when considering its strategy, size, competition, and other relevant factors. Additionally, the institution faces no significant constraints in participating in community development activities.

During the evaluation period, the bank supported community development initiatives by extending community development loans, making qualified investments, and providing financial expertise to local community development organizations. In addition to the qualified investments previously discussed that impact the statewide area, FMB and its employees participated in the following community development activities that specifically benefitted the Harrisonburg-Staunton, VA CSA assessment area.

- FMB originated 27 community development loans totaling \$2.1 million that aided in job preservation targeted to low- and moderate-income workers. These loans were extended as part of FMB's PPP lending efforts.
- FMB made 35 donations totaling \$97,750 during the evaluation period to organizations that provide community development services within the assessment area.

FMB and its employees also provided community development services that benefitted this assessment area. Bank employees also provided financial expertise by serving on the board of directors for the following organizations.

- Elkton Area United Services provides financial assistance and educational opportunities to low- and moderate-income people.
- Community Foundation of Central Blue Ridge provides support to nonprofit organizations serving low- and moderate-income individuals and families.
- The United Way of Staunton supports the efforts of nonprofit organizations that provide community services to low- and moderate-income individuals.
- Staunton, Augusta, Waynesboro Habitat for Humanity supports area affordable housing initiatives targeted to low- and moderate-income people.
- Big Brothers Big Sisters of Harrisonburg/Rockingham provides social primarily impacting low- and moderate- income people.
- Plains Area Daycare provides childcare services and assistance to low- and moderate-income families.
- Mercy House is a nonprofit affordable housing organization that targets area low- and moderate-income people.

Overall, the bank demonstrated an excellent level of responsiveness to local community development needs through its lending, investment activities, and support of area organizations that facilitate community development.

NONMETROPOLITAN STATEWIDE AREA

(For nonmetropolitan statewide areas reviewed using limited-scope review)

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NONMETROPOLITAN STATEWIDE AREA

An assessment area, which is noted in the table below, was reviewed using the limited review examination procedures. Information detailing the composition of the assessment area, including selected demographic data, is included in **APPENDIX A** of this report.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN STATEWIDE NONMETROPOLITAN ASSESSMENT AREA

Facts and data reviewed for the assessment area, including performance and demographic information, can be found in **APPENDIX A** of this evaluation. A conclusion regarding performance, which did not impact the institution’s overall rating, is included in the following table. The conclusion conveys whether performance in an assessment area was generally below, consistent with, or exceeded the institution's overall rating.

Assessment Area	Lending Test	Community Development Test
Shenandoah NonMSA	Consistent	Consistent

**CRA APPENDIX A
LIMITED REVIEW TABLES**

Shenandoah, VA NonMSA Assessment Area

The bank operates two branches in this assessment area, which includes all of Shenandoah County, Virginia. The assessment area includes no low- or moderate- income tracts, five middle-, and four upper-income census tracts.

Performance Test Data for Shenandoah, VA NonMSA Assessment Area

Limited Review Lending Table

Shenandoah County, VA NonMSA (2019)									
Income Categories	Bank		Aggregate	Demographic	Bank		Aggregate	Demographic	
	#	%	%	%	#	%	%	%	
	Home Purchase				Home Improvement				
<i>Geographic</i>	(73)				(2)				
Low	NA	NA	NA	NA	NA	NA	NA	NA	
Moderate	NA	NA	NA	NA	NA	NA	NA	NA	
Middle	52	71.2	61.9	69.8	1	50.0	63.5	69.8	
Upper	21	28.8	38.1	30.2	1	50.0	36.5	30.2	
	Refinance				Multi-Family				
<i>Geographic</i>	(21)				(1)				
Low	NA	NA	NA	NA	NA	NA	NA	NA	
Moderate	NA	NA	NA	NA	NA	NA	NA	NA	
Middle	15	71.4	64.4	69.8	1	100.0	71.4	69.8	
Upper	6	28.6	35.6	30.2	0	0.0	28.6	30.2	
	HMDA Totals				Consumer				
<i>Geographic</i>	(97)				(NA)				
Low	NA	NA	NA	NA	NA	NA	NA	NA	
Moderate	NA	NA	NA	NA	NA	NA	NA	NA	
Middle	69	71.1	62.8	69.8	NA	NA	NA	NA	
Upper	28	28.9	37.2	30.2	NA	NA	NA	NA	
<i>Borrower</i>	(93)				(NA)				
Low	7	7.5	4.8	15.9	NA	NA	NA	NA	
Moderate	21	22.6	18.4	18.6	NA	NA	NA	NA	
Middle	23	24.7	27.2	21.2	NA	NA	NA	NA	
Upper	42	45.2	49.6	44.3	NA	NA	NA	NA	
	Small Business				Small Farm				
<i>Geographic</i>	(NA)				(NA)				
Low	NA	NA	NA	NA	NA	NA	NA	NA	
Moderate	NA	NA	NA	NA	NA	NA	NA	NA	
Middle	NA	NA	NA	NA	NA	NA	NA	NA	
Upper	NA	NA	NA	NA	NA	NA	NA	NA	
<i>Revenue</i>									
Busn/ Farms with revenues <=\$1 M	NA	NA	NA	NA	NA	NA	NA	NA	

*Geographic () represents the total number of bank loans for the specific Loan Purpose where geography is known
Borrower () represents the total number of bank loans for the specific Loan Purpose where income is known
NA represents no activity in the income category*

Community Development Loans, Investments, and Services

FMB's community development activities are considered consistent with those discussed in the full-scope assessment area. The statewide VCDC investments mentioned previously apply to this assessment area. In addition, specific to this assessment area, the bank made qualified loans and donations to community service organizations as well as participated in the following community development activities during the evaluation period:

- FMB originated five community development loans totaling \$115,362.
- FMB made six donations totaling \$5,000 to area community development organizations.
- An employee serves on the board of directors of the Shenandoah Alliance for Shelter, which provides social services to area low- and moderate-income individuals.

CRA APPENDIX B

LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA

The following table includes the distribution of FMB’s branch offices, along with deposit and loan volume. The deposit volume includes all bank deposits as of June 30, 2021, while the loan volume includes all HMDA, consumer motor vehicle, and small business loans considered in the evaluation.

Assessment Area	Loan Volume				Full-Service Branches		Deposit Volume	
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Harrisonburg-Staunton, VA CSA	1,457	83.5%	\$259,853	84.1%	10	76.9%	\$807,634	83.5%
Shenandoah, VA NonMSA	284	16.3%	\$48,952	15.8%	2	15.4%	\$138,734	14.3%
Winchester, VA	3	.2%	\$38	.1%	1	7.7%	\$20,718	2.2%
TOTAL	1,74	100%	\$308,842	100%	13	100%	\$967,086	100%

CRA APPENDIX C

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.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - (A) Rates of poverty, unemployment, and population loss; or
 - (B) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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.

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, which 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).

Full-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, 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.

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.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 qualified investment is defined as any 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.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): 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, or are classified as loans to finance agricultural production and other loans to farmers.

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