

PUBLIC DISCLOSURE

November 29, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank-Massanutten
91521
1855 East Market Street
Harrisonburg, Virginia 22801

**Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261**

NOTE: 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.

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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 CRA performance of F & M Bank–Massanutten, Harrisonburg, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of November 29, 1999. 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 Satisfactory.

The bank primarily serves its assessment area through its lending activities and offers a variety of credit products. A substantial majority of the institution's loans were extended in the assessment area and the distribution of lending through- out the area is considered reasonable. Furthermore, loans have been extended to borrowers of varying incomes and to businesses of different sizes. Delivery systems and branch locations are considered readily accessible to all segments of the assessment area. Participation in qualified community development investments is, however, limited. The bank has not received any complaints regarding its CRA performance since the previous evaluation.

The following table indicates the performance level of F & M Bank-Massanutten with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	<u>F & M Bank-Massanutten</u>		
	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

F & M Bank-Massanutten is headquartered in Harrisonburg, Virginia, and operates nine offices in the central Shenandoah Valley. The institution is a subsidiary of F & M National Corporation, a multibank holding company located in Winchester, Virginia. As of September 30, 1999, the bank held \$258 million in assets of which 80% were loans and 12% were securities. The loan portfolio as of this date consisted of 36% residential real estate secured, 40% consumer, 12% other real estate (including farmland and nonresidential property), 10% commercial and agricultural, and 2% construction and land development. Since the previous examination in March 1997, assets, loans, and deposits have increased by 44%, 84%, and 36%, respectively. Much of this growth is attributable to the bank's increased focus on indirect automobile lending. The bank's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

As identified in the institution's CRA Public File, a full range of credit products is offered including residential mortgage, residential construction, home improvement, small business, commercial, consumer, and agricultural loans. During the ten-quarter period ending September 30, 1999, the quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to F & M Bank-Massanutten ranged from 76% to 81%. The bank's loan-to-deposit ratio as of September 30, 1999, was 100% and averaged 87% during the same ten-quarter period noted above. This level of lending is considered highly responsive to area loan demand given its size, location, and financial capacity.

Lending Activity

According to Regulation BB, all large banks must collect and report data on the volume of small business, small farm, and qualified community development loans that the institution originates. The following table summarizes the bank's volume of reported lending. The loans were extended beginning April 1, 1997 through September 30, 1999.

	Total Loans	Total Dollar Amount (000's)
Small Business	990	\$76,783
Small Farm	294	\$7,914
Total	1,284	\$84,697

Additionally, the regulation requires that the residential real estate lending of large banks also be included in the CRA analysis. Residential real estate lending is defined as loans to purchase or improve residential properties, including the refinancing of either. Therefore, a sample of 100 randomly selected residential real estate loans out of approximately 225 extended during the previous six months was included in the analysis. The bank is also an active consumer lender and it was determined that indirect automobile loans are the single largest type of consumer loans extended. Accordingly, a sample of 200 randomly selected indirect motor vehicle loans out of approximately 2500 extended during the preceding six months was included in the analysis.

Assessment Area Concentration

Comparison of Credit Extended Inside and Outside of Assessment Area

	Small Business/Farm		Residential Real Estate		Consumer		Total	
	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	1,167	117	88	12	137	63	1,392	192
Percentage of Loans	91%	9%	88%	12%	69%	31%	88%	12%
Amount of Loans (000's)	\$77,189	\$7,508	\$5,827	\$820	\$1,966	\$950	\$84,982	\$9,278
Percentage of Amount	91%	9%	88%	12%	67%	33%	90%	10%

As depicted above, a substantial majority of the number and dollar amounts (88% and 90%) of the analyzed loans have been provided to area residents. This level of lending in the bank's market area is considered responsive to community credit needs.

A detailed analysis of the lending distribution by business revenues and borrower income is discussed later in this evaluation. In general, the level of lending to low- and moderate-income borrowers and to businesses and farms with revenues of \$1 million or less typically exceeds the proxies used to estimate demand. The assessment area contains two unpopulated and undeveloped low-income tracts and no moderate-income tracts. The bank's distribution of lending within the remaining middle- and upper-income tracts is considered reasonable.

The institution is rated high satisfactory under the lending test.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated needs to improve. The bank's qualified investments consist of a limited number of donations and/or grants to local charitable organizations whose operations benefit primarily low- and moderate-income people.

SERVICE TEST

The overall rating of the institution under the service test is high satisfactory. Delivery systems and branch locations are considered readily accessible, and the hours of operation are convenient to all portions of the assessment area. Additionally, a branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. The bank's participation in community development services is considered reasonable.

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. Technical violations 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.

NONMETROPOLITAN STATEWIDE AREAS

(if some or all of the assessment areas within the nonmetropolitan statewide area were reviewed using the examination procedures)

DESCRIPTION OF INSTITUTION'S ASSESSMENT AREA:

F & M Bank–Massanutten's assessment area includes all of Rockingham County, the City of Harrisonburg, and census tracts 702.00, 703.00, and 704.00 in Augusta County, Virginia. According to 1990 census data, the assessment area has a population of 99,433, of which 6% are college students. According to the census data, the median housing value equals \$75,055 and is generally considered affordable when compared to the 1990 median family income of \$33,299. The assessment area's overall poverty rate of 5.7% is significantly lower than the 11.5% poverty rate for nonmetropolitan areas of the Commonwealth. Furthermore, within the assessment area 63% of the housing stock is owner-occupied, which is similar to the rate for non-metropolitan areas of Virginia (65%). The 1999 median family income for nonmetropolitan areas of the Commonwealth of Virginia is \$38,300. The bank operates nine full service offices in this market.

The following table provides demographic data for the assessment area by the income level of families and the percentage of population living in census tracts of varying income levels. The table also displays the distribution of owner-occupied housing and area poverty rates by income level of census tract.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Area Families by Income Level	12%	15%	24%	49%	100%
Percentage of Population Residing in Census Tracts of Different Income Levels	0%	N/A	48%	52%	100%
Percentage of Owner-Occupied Housing Units by Income Level of Tract	0%	N/A	53%	47%	100%
Number of Census Tracts by Income Level	2 *	0	13	13	28
Percentage of Families Below Poverty by Income Level of Census Tract	0%	N/A	6%	5%	N/A

* The low-income tracts are both unpopulated and undeveloped.

The assessment area is located in the heart of the Shenandoah Valley approximately 130 miles northwest of Richmond, Virginia and 125 miles southwest of Washington, D. C. The local economy is based on a variety of industries including poultry processing, academic institutions, manufacturing, and health care facilities. Major local employers include Rocco Enterprises (poultry processing), WLR Foods (poultry processing), James Madison University, Coors Brewing Company, R. R. Donnelley and Sons (book binding and publishing), Dunham-Busch (heating/refrigeration unit manufacturing), and Sysco Food Services of Virginia (wholesale food distribution). Unemployment rates as of July 1999 are 1.1% for Rockingham County and the City of Harrisonburg, and 1.9% for Augusta County. These rates compare favorably to the Commonwealth's rate of 2.8%.

Individuals considered knowledgeable of local economic conditions were contacted recently to further assist in evaluating the bank's CRA performance. The contacts indicated that area financial institutions are sufficiently meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

Geographic Distribution of Loans

As previously noted, the two low-income tracts within the assessment area are unpopulated and undeveloped while the remaining populated geographies are middle- and upper-income areas. Accordingly, 100% of the number and dollar amount of loans within the market area were extended within these geographies. The bank's distribution of lending within the middle- and upper-income tracts is considered reasonable. According to Dunn and Bradstreet demographic information 43% of businesses and farms in the assessment area are located in middle-income tracts. The banks level of reportable small business and small farms in middle-income tracts was 47% and 78%, respectively. Of the real estate and consumer loans reviewed 44% and 50%, respectively were extended to residents residing in middle-income tracts. These percentages approximate the percentage of population residing in such tracts (48%) and the percentage of owner-occupied housing units in such tracts (53%).

Borrower's Profile

The following charts illustrate the distribution of small business, small farm, residential real estate, and indirect motor vehicle loans extended by the bank in its assessment area to businesses of different sizes and by income level of the borrower. Area demographics, Dunn and Bradstreet business data, and aggregate information are used as proxies for demand when evaluating the bank's borrower lending performance. Aggregated data includes F & M Bank-Massanutten and all reporting institutions that originated small business and small farm loans within the assessment area in 1998. The small business and small farm loans cover a time period beginning April 1, 1997 and ending on September 30, 1999. The residential real estate and motor vehicle loans were all extended within the previous six months.

Distribution of Lending by Loan Amount for Small Business Loans

	\$0 - \$100,000		>\$100,000 to \$250,000		> \$250,000		Total	
Total Revenues ≤ \$1 Million	626	71%	124	14%	46	5%	796	90%
Total Revenues > \$1 Million	71	8%	13	1%	7	1%	91	10%
Total Numbers	697	79%	137	15%	53	6%	887	100%

According to Dunn and Bradstreet demographic information, 87% of the business establishments within the assessment area have

sales of less than \$1 million. As illustrated in the preceding table, 90% of the bank's small business loans were provided to businesses with revenues of \$1 million or less. Additionally, this level of lending is significantly higher than the 1998 aggregate loan data, which shows at least 57% of all reportable business loans within the assessment area were to businesses with revenues of \$1 million or less. Of the remaining proportion of loans, either the businesses had revenues exceeding \$1 million or the revenues of the businesses were not reported. A further analysis of the bank's business lending reveals that 71% of the loans were to businesses with revenues not exceeding \$1 million and in amounts of \$100,000 or less. This level of lending demonstrates the institution's responsiveness in meeting the credit needs of local small businesses.

Distribution of Lending by Loan Amount for Small Farm Loans

	\$0 - \$100,000		>\$100,000 to \$250,000		> \$250,000		Total	
Total Revenues ≤ \$1 Million	232	92%	14	5%	5	2%	251	99%
Total Revenues > \$1 Million	1	<1%	1	1%	0	0%	2	1%
Total	233	92%	15	6%	5	2%	253	100%

According to 1998 aggregate loan data, at least 92% of all reportable farm loans within the assessment area were to entities with revenues of \$1 million or less (for the remaining proportion of loans, either the farms had revenues over \$1 million or revenues were not reported). Moreover, demographic information from Dunn and Bradstreet indicated that 94% of the farms within this assessment area have revenues of less than \$1 million. As shown in the preceding table, 99% of the small farm loans were provided to farms with revenues of \$1 million or less. Furthermore, 92% of the loans were to farms with revenues not exceeding \$1 million and in amounts of \$100,000 or less.

Distribution of Residential Real Estate Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	4	14	29	41	88
Percentage of Total Loans	4%	16%	33%	47%	100%
Total Amount of Loans (000's)	\$252	\$649	\$1,538	\$3,388	\$5,827
Percentage of Total Amount	4%	11%	27%	58%	100%

Distribution of Motor Vehicle Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	24	37	42	34	137
Percentage of Total Loans	17%	27%	31%	25%	100%
Total Amount of Loans (000's)	\$250	\$465	\$641	\$610	\$1,966
Percentage of Total Amount	13%	24%	32%	31%	100%

Within the bank's local market area, 12% of area families are considered low-income and 15% are considered moderate-income. Accordingly, the bank's level of lending to low- (17%) and moderate-income borrowers (27%) for motor vehicle loans and to moderate-income borrowers (16%) for residential real estate loans compares well to demographic statistics. The level of residential real estate lending to low-income borrowers (4%) is substantially less than the proportion of area low-income families (12%). However, this level of lending (4%) compares favorably with 1998 aggregate data of such lending (5%) for those institutions required to report real estate lending activity within the assessment area under the Home Mortgage Disclosure Act. Given the product lines included in this analysis, the distribution of loans to businesses and farms of different sizes and to borrowers of different income levels is considered responsive to community credit needs when using aggregate data and area demographic information as proxies for demand.

Community Development Loans

To the extent that the bank may have originated any loans for community development purposes in the assessment area, such financing has been reported as small business or small farm loans.

INVESTMENT TEST

The bank's qualified investments consist of a limited number of donations and/or grants to local charitable organizations whose operations benefit primarily low- and moderate-income people. There does not appear to be a lack of qualified investment vehicles available to the bank within its assessment area or on a regional or statewide basis. Overall, the level of qualified investments needs to improve considering the institution's size, market area, and investment levels of similarly situated banks.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. Automated teller machines (ATMs) are available and, through a network, provide customers with 24-hour nationwide access. Bank-by-mail and an automated phone service also provides customers with 24-hour telephone access to their accounts.

Branch Locations and Hours of Operation

Branch locations and business hours are considered convenient and meet the needs of the assessment area. Nine full service offices, seven full service ATMs, and three cash dispensing ATMs serve the local community. Offices are typically open until 5:30 p.m. Monday through Friday and until noon on Saturdays. One branch office and two cash dispensing ATMs have been opened since the prior examination. Additionally, six cash dispensing ATMs were closed during this time period. These ATMs were closed when the convenience stores in which the machines were housed failed to renew its contracts with the bank.

Community Development Services

The bank has recently established a school savings program for the special education unit within Turner Ashby High School. Additionally bank staff and directors are actively involved in numerous organizations that benefit low- and moderate-income people and organizations that foster microenterprise growth. These organizations and the participant's positions include, but are not limited to, the following:

- Central Valley Habitat for Humanity – President and Treasurer
- Consumer Credit Counseling – Advisory Board member
- Score (provides advisory services to area small businesses) – Counselor
- Valley Microenterprise Development Corporation – Bank Liaison

The bank's willingness to support its local community through the delivery of retail and commercial banking services and its participation in organizations that benefit lower income residents is rated high satisfactory.