

PUBLIC DISCLOSURE

February 6, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SALEM BANK AND TRUST, N.A.

**Charter #: 21516
220 East Main Street
Salem, Virginia 24153**

**Office of the Comptroller of the Currency
Roanoke Duty Station
3800 Electric Road, Suite 204
Roanoke, Virginia 24018**

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.

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 **Salem Bank and Trust, N.A.** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 6, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Salem Bank and Trust, N.A. has a satisfactory record of meeting the credit needs of its community, including the needs of low- and moderate-income individuals. This assessment is based on a high level of loan originations, an appropriate level of lending within the bank's assessment area and a reasonable level of lending to borrowers of different incomes and businesses of different sizes.

The following table indicates the performance level of Salem Bank and Trust, N.A. with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | <u>Salem Bank and Trust, N.A.</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 | | X | |
| Response to Complaints | No complaints have been received since the last examination. | | |

DESCRIPTION OF INSTITUTION

Salem Bank and Trust is a \$123 million dollar institution located in Salem, Virginia. The bank operates five office locations in the city of Salem and Roanoke County. To help meet the credit needs of its community, Salem Bank and Trust offers a variety of banking products and services. These include credit card, small business, residential, consumer, and commercial loans as well as a variety of government-sponsored loan programs. The majority of the bank's loans are real estate loans. The type and quantity of loans in the bank's portfolio reflects positively on the bank's efforts to meet the credit needs of its community. The loan portfolio is comprised of the following.

| | |
|-----|---|
| 43% | Consumer real estate loans (1-4 family residential, construction, home equity) |
| 26% | Non-farm, non-residential real estate loans |
| 24% | Consumer loans |
| 6% | Commercial and industrial loans |
| 1% | Credit card loans |

Although lending is concentrated primarily in areas surrounding the bank's branches, the bank is effectively serving its entire assessment area. There are no financial or legal impediments restricting the lending activities of the bank.

DESCRIPTION OF THE ASSESSMENT AREA

Salem Bank and Trust's assessment area is the Roanoke Metropolitan Statistical Area (MSA). The Roanoke MSA includes Roanoke and Botetourt counties and the independent cities of Roanoke and Salem. The assessment area includes 47 census tracts, of which 3 are low income, 8 are moderate income, 25 are middle income, and 11 are upper income. This metropolitan area is well established as a crossroads and gateway for Southwestern Virginia. Roanoke has long been a major rail and highway transportation hub. It is the region's dominant center for retail and wholesale trade, financing and professional services.

The Roanoke MSA has a total population of 224,477. The median family income for the area is \$43,400. The area has a stable and diverse economy. The major employers are Carilion Health Systems, Norfolk Southern, Yokohama Rubber and General Electric. Unemployment levels are low at 2.6%.

Discussions with bank officials and local community action organizations indicate community credit needs include small dollar consumer loans and flexible small business products. Salem Bank and Trust is addressing these needs through existing products. Management entertains all credit requests and has not specified a minimum loan amount. A concentrated effort has been made to meet the credit needs of small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

LOAN TO DEPOSIT RATIO

The loan to deposit ratio is more than reasonable based on the volume of loans originated by the bank in 1996. The loan to deposit ratio has averaged 69% since the last CRA evaluation. This ratio is in line with peer average of 68% for the same time period. In addition to the mortgage loans originated and retained, Salem Bank and Trust has generated an additional \$11 million in residential real estate loans which were sold in the secondary mortgage market. Offering this type of long term, fixed rate mortgage product demonstrates a willingness to meet established credit needs.

LENDING IN THE ASSESSMENT AREA

The majority of the bank's lending activities are within the bank's assessment area. Based on residential real estate lending patterns, 78% of the number of loans and 71% of the dollar volume of loans originated in 1996 were located within the Roanoke MSA.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Salem Bank and Trust has a reasonable distribution of loans among borrowers of all income levels and businesses of different sizes, particularly small businesses. Based on the number of consumer loans extended in 1996, 13% were extended to low-income individuals, 26% to moderate-income, 26% to middle-income, and 35% to upper-income borrowers. This distribution compares favorably with the demographics of the area, as 19% of the families are considered low income, 18% are moderate income, 25% are middle income and 38% are upper income.

Salem Bank and Trust's lending is targeted to small businesses. Approximately 67% of all commercial loans are made to businesses with less than \$1 million in annual revenues. In March 1996, Salem Bank and Trust was formally recognized by the United States Small Business Administration as a leading provider of loans to small businesses in the state of Virginia.

Salem Bank and Trust has promoted local economic development by providing loans to finance several start-up businesses within the assessment area. In addition, the bank has provided financing for the purchase and renovation of several low- and moderate-income housing projects in the Roanoke area.

GEOGRAPHIC DISTRIBUTION OF LOANS

Salem Bank and Trust has a reasonable penetration of credit extensions throughout its

assessment area. An analysis of the bank's consumer lending patterns indicates that loans are concentrated in census tracts located nearest the bank's branches. However, efforts to extend credit do not exclude any particular geographies. Specifically, 2% of loans originated in 1996 were extended to borrowers in low income census tracts, 11% to borrowers in moderate income tracts, 46% to borrowers in middle income tracts, and 42% to borrowers in upper income tracts. This distribution is reasonable considering the assessment area's composition (low income tracts - 6%, moderate income tracts - 17%, middle income tracts - 53%, and upper income tracts 23%).

REVIEW OF COMPLAINTS

The bank has received no CRA related complaints since the previous examination.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

No violations of the substantive provisions of the anti-discrimination laws and regulations were noted.