
PUBLIC DISCLOSURE

December 17, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**South Branch Valley National Bank
Charter # 3029**

**310 North Main Street
Post Office Box 680
Moorefield, West Virginia 26836**

**Office of the Comptroller of the Currency
Richmond Duty Station
10800 Midlothian Turnpike, Suite 150
Richmond, Virginia 23235**

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 **South Branch Valley National Bank by the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 17, 1996**. 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 ***Outstanding***.

South Branch Valley National Bank (South Branch Valley) continues to meet the spirit and intent of the CRA through its efforts to meet the credit, service, and development needs of the community. The bank extends a substantial majority of its loans within its four county assessment area located in the eastern panhandle of West Virginia. The institutions' loan-to-deposit ratio is reasonable and is consistent with similarly situated banks operating in its assessment area. Also, lending among borrowers of different incomes and businesses of different sizes is very good. South Branch Valley has taken a leadership role in community development through various qualified investments and in-kind grants considered critical to the community's well-being. The bank has also enhanced its ability to deliver credit and other financial services through extended business hours and the addition of a new branch facility since the last examination. Management has also donated free use of its branch facilities to a nonprofit organization whose building was severely damaged in the flood of September 1996.

The following table indicates the performance level of South Branch Valley National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>South Branch Valley National Bank</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 since the assessment area consists of only middle income Block Numbering Areas (BNAs).		
Response to Complaints	There has been no CRA complaints since the last CRA examination.		

DESCRIPTION OF INSTITUTION

South Branch Valley National Bank is a \$120 million full service independent community bank headquartered in Moorefield, West Virginia. The bank is the only affiliate of South Branch Valley Bancorp, Inc. In addition to its main office, South Branch Valley has offices in Mathias, Franklin, and Petersburg, West Virginia. Competition within the assessment area is keen with six independent banks and branches of a large out-of-state bank affiliate. Among its primary competitors in its assessment area, South Branch Valley is the largest bank in terms of total assets and has the highest number of office locations at four. A state chartered financial institution located in nearby Hampshire County is the only similarly situated bank to South Branch Valley with \$114 million in assets and three offices. The majority of the South Branch Valley's earning assets are in loans, at 67%. The bank's \$80 million loan portfolio is centered primarily in residential and consumer lending which represents 69% and 24% respectively.

South Branch Valley's strategic emphasis is focused on a continuation of loan growth in the consumer and commercial business sectors. A substantial majority of the commercial loans extended by the bank are to small businesses and entrepreneurs located in its assessment area. There are no significant impediments that would hinder South Branch Valley's ability to meet the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

South Branch Valley has designated the eastern panhandle counties of Hardy, Grant, Pendleton, and a portion of Hampshire County as its assessment area. This area is also known as the Potomac Highlands Region. The Hampshire County assessment area includes four out of the five block numbering areas (BNAs) located in the County as detailed below. The bank's assessment area meets the requirements of the Community Reinvestment Act as no areas have been arbitrarily excluded.

Block Numbering Area	Municipalities and Unincorporated Postal Zones
9683	Augusta
9684	Purgitsville, Junction, Springfield
9685	Kirby, [Romney], Augusta, Shanks
9686	Rio, [Capon Bridge], Yellow Springs, Delray

[] = Municipalities

The entire assessment area is very rural and mountainous. The total population is approximately 46 thousand people, 8% of which represent racial minorities. Of the 17,500 households in the assessment area, 36% are low to moderate income, and 64% represent middle to upper income households. Nearly 19% of these households are below the poverty

level. The 1996 Housing and Urban Development (HUD) updated median family income of all non-metropolitan statistical areas is \$26,600. The area's housing stock is 73% owner occupied and consists primarily of 1-4 family units, second only to mobile home and trailer housing at 22%. The median housing value is slightly more than \$50 thousand.

The Town of Moorefield, the county seat for Hardy County, is a major commercial and employment hub for the assessment area. The County enjoys a lower than average unemployment rate (2% - 3% compared to 6% for the State) due in part to its cabinet manufacturing plants and chicken/turkey processing facilities. Poultry processors' Wampler-Longacre and Hester Industries are major employers as are cabinet makers' American Wood-Mark, Fertig Cabinet Company, and Allegheny Wood Products. Hanover Shoe is also a major employer. Nearby Hampshire County's close proximity to Winchester, Virginia also contributes to the employment base as many residents commute this 50-mile distance on a daily basis. The area is within a 2-hours drive to the nation's capital, Washington, D.C.

We contacted organizations in the assessment area familiar with housing, community development, and service needs of the community. These organizations highlighted the need for more affordable housing, which is in short supply, and improved joint participation between area financial institutions and nonprofit organizations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

- ▶ **South Branch Valley's lending levels reflect good responsiveness to assessment area credit needs. The average loan-to-deposit ratio, at 72%, is reasonable and is consistent with similarly situated independent banks operating in the assessment area. And, the ratio is slightly higher than the 70% average of other similar banks in the State of West Virginia.**

South Branch Valley's loan-to-deposit ratio has increased from 68% at the last CRA examination in December 1993 to 77% through September 1996. Since year-end 1993, the bank's quarterly loan-to-deposit ratio has remained virtually stable within a range from 72% - 74%.

Lending in the Assessment Area

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- **South Branch Valley extends a substantial majority of its loans within its four county assessment area.**

Both the number and dollar amounts of loans made within the assessment area have increased since the last CRA examination. This has resulted in large measure from incremental increases in loan demand as well as expansion of the assessment area through the opening of the Petersburg Office in Grant County in November 1995. According to internal management reports for all loan types by number and dollar volume, extensions made within the assessment area total 82% and 79% respectively in 1996.

Lending to borrowers of different incomes and to businesses of different sizes.

- **South Branch Valley's lending penetration to borrowers of different income levels and to commercial businesses of different sizes is very good. The bank is an active participant in programs to assist low and moderate income home buyers, and community development projects to fund local commercial businesses.**

Except for mortgage related lending activities, the bank is not required to formally track borrower income for other types of loans. However, management has developed and prepared reports that track the aggregate volume of lending to low and moderate income borrowers based on 68% (or \$18 thousand) of the median income for the assessment area. The structure and recent vintage of tracking reports are limited and underestimate the full impact of the bank's lending to low and moderate income borrowers. This is because management only began tracking this data in early 1996, and tracking data for prior years, i.e., 1994 and 1995 are not readily available. The report shows that South Branch Valley made 704 loans totaling nearly \$3 million to low and moderate income borrowers in 1996. Another 293 loans totaling \$168 thousand were made in small amounts of \$1,000 or less. These small loans are routinely made by the bank and are considered to be very important sources of credit for the economically disadvantaged and low income families in the bank's assessment area.

Our sample review of 41 mortgage loans granted in 1996 shows that the percentage of the total number of loans to families in all except the low income range is higher or proportional to the percentage of families in the assessment area (see the table on page 6). Management has developed a working relationship with a local nonprofit agency whose mission is to eliminate the causes and effects of poverty in the assessment area. This includes making housing more affordable to low and moderate income borrowers. To assist in this effort, South Branch Valley extended a \$60 thousand line of credit to the Eastern West Virginia Community Action Agency, Inc. for interim financing to build low and moderate income housing. The bank is also working closely with the Hardy County Rural Development Authority to finance water and sewer lines needed to develop subdivisions for low and moderate income housing.

Sample of Mortgage Loans Granted in 1996					
Income Levels*	Number	% of Total Number	\$000's	% of Total Dollars	% Number of Households in the Community
Low \$13,300 or less	0	0	0	0	22
Moderate \$13,301-\$21,280	11	27	182	11	14
Middle \$21,281-\$31,920	11	27	368	22	18
Upper More than \$31,920	19	46	2,415	67	46
Total	41	100	1,671	100	100

* 1996 updated median income of all non-metropolitan statistical areas = \$26,600.

South Branch Valley participates in the Federal Home Loan Bank Board's (FHLBB) long-term fixed rate mortgage program and has \$1.5 million committed with \$1.4 million in mortgage funds outstanding as of year-end 1996. These special rate mortgage loans apply to any loan under \$25 thousand.

The bank's predominate commercial loan emphasis is lending to small businesses and entrepreneurs with revenues less than \$1 million. This is consistent with South Branch Valley's lending capacity and the size of commercial businesses operating within its assessment area. Of the 7 commercial loans reviewed as part of our commercial sample of large loans, six were to businesses with revenues less than \$1 million. Internal management reports show that the bank made an additional 65 small business and small farm loans totaling \$3 million in 1996. For its size, South Branch Valley has taken a leadership role in providing funding for commercial projects in the community. The bank participates in the FHLBB's commercial investment loan program and has funded a little over \$2 million for two major projects for the South Branch Inn (Moorefield) and Allegheny Dimensions (Petersburg). The South Branch Inn is a 56-room motel and Allegheny Dimensions is a furniture manufacturer. These two projects resulted in several hundred new jobs in the assessment area.

Geographic Distribution of Loans

Since all the BNAs in the assessment area are middle income, an analysis of the geographic distribution of loans was not conducted.

Response to Complaints

Since there have been no CRA complaints filed since the last examination, this performance factor could not be evaluated.

INVESTMENT AND SERVICE TESTS

Investments

- ▶ **South Branch Valley is a corporate leader in the volume and level of qualified investments and in-kind grants that enhance credit availability in its assessment area.**

Through its municipal investment securities portfolio, South Branch Valley has invested heavily in areas considered critical to the success of its community. As the table below shows, the bank has invested \$1.8 million in 19 separate issues for community projects for health facilities, railroad maintenance to enhance transportation for commerce and industry, and improvements in education.

Location in West Virginia	Description	Number of Purchased Securities	Total \$ Par Value (000's)
Grant County	Community Hospital Revenue	5	240
Hampshire & Hardy County	Railroad Maintenance	11	465
Hardy County	Board of Education	3	1,060

South Branch Valley has also provided the following in-kind community grants since the last CRA examination:

- ▶ \$25 thousand to the Town of Moorefield's Flood Protection Project for a flood wall to protect business and residential property (December 1994-1996);
- ▶ 1.3 acres of adjacent land valued at \$299,580 to the Hardy County Board of Education for improvements to a local middle school (December 1996).

Services

- ▶ **South Branch Valley has enhanced its ability to deliver credit and other financial services throughout its assessment area through extended business hours and the opening of a new branch in Petersburg in November 1995.**

South Branch Valley has the highest number of offices (4) in its assessment area. Offices are located in Moorefield, Mathias, Franklin, and Petersburg. This has allowed the bank to service a much larger four county area than other competitors. Lobby and Drive-Up hours are tailored for customer convenience and access. Most offices are open anywhere from 8:30 a.m.-5:00 p.m. Monday-Thursday, and through 7:00 p.m. on Fridays. Saturday hours are also available from 8:00 a.m.-12:00 p.m. An Automated Teller Machine (ATM) is available 24-hours a day at the Moorefield main office.

Management at South Branch Valley has donated free meeting space at the Franklin office for the staff of the Franklin Head Start Program. This local nonprofit agency's office was severely damaged by the September 1996 flood. The organization has been meeting in the Franklin branch since September 1996 and is expected to use the facility through February 1997. The Franklin Head Start Program is an organization that serves the early education and nutrition needs of the children of low and moderate income families in Pendleton County.

Compliance with Anti-discrimination Laws

- ▶ **South Branch Valley is in substantial compliance with anti-discrimination laws and regulations, including fair lending and fair housing laws. The bank has implemented fair lending compliance testing procedures to ensure fair and equal treatment to all applicants for credit.**

OCC's fair lending review did not reveal any violations of the substantive provisions of Anti-discrimination laws and regulations.