



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 30, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Salem Bank and Trust, NA
Charter Number 21516**

**220 East Main Street
Salem, VA 24153**

**Comptroller of the Currency
Virginia Field Office
3800 Electric Road Suite 204
Roanoke, VA 24018**

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

We assigned the rating based on the following information:

- The bank's loan to deposit ratio is reasonable at 75.7% as of March 31, 2001. The quarterly average using 14 quarters beginning December 31, 1997 is 72.9%.
- Salem Bank and Trust provides for the credit needs of the community with 75% of the number of loans sampled extended to borrowers within the assessment area.
- Lending to borrowers of different incomes is good.
- Geographic distribution of loans in the assessment area is reasonable.
- No public complaints have been filed during the current assessment period.

DESCRIPTION OF INSTITUTION

Salem Bank and Trust, N.A. (SB&T) received a satisfactory CRA rating at its last CRA performance evaluation dated February 6, 1997. There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment area.

SB&T is a wholly owned subsidiary of Salem Community Bankshares, Inc., a \$225 million bank holding company. The holding company was formed during the fourth quarter of 2000. The main office is located in Salem, Virginia. The bank also operates five full-service branch offices and one mortgage loan center within its assessment area. Two of the branches are located in the City of Salem, one in Roanoke County, and two in the City of Roanoke. The mortgage loan center is located in the City of Salem. They opened one new branch office in April 2000. No offices closed since the last CRA examination.

As of March 31, 2001, the bank's assets totaled \$225 million, of which net loans comprise 65 percent. The following table shows the bank's lending activity since the last CRA examination. As indicated below, loans secured by autos and indirect auto loans are the primary loan types based on the number of loans made during this time period. Based on the dollar amount originated, real estate loans are a primary loan product.

Product Category (By Security Type)	Lending Activity for the Period February 27, 1997 to July 30, 2001*			
	Number	Percent	Dollar (000's)	Percent
Real Estate	1,487	12.4%	\$120,512	38.1%
Construction	462	3.9%	\$69,780	22.1%
Vehicle	4,346	36.4%	\$43,888	13.9%
Indirect Auto	2,463	20.6%	\$31,395	9.9%
Unsecured	2,179	18.2%	\$24,015	7.6%
Inventory, Equipment, or Accounts Receivable	293	2.5%	\$10,867	3.4%
Liquid Collateral	483	4.0%	\$7,883	2.5%
Heavy Trucks	122	1.0%	\$4,382	1.4%
Other	50	0.4%	\$2,514	0.8%
Mobile Home	66	0.6%	\$1,041	0.3%
Total	11,951	100.0%	\$316,277	100.0%

* Data obtained from bank report. The bank changed operating systems during February 1997, therefore information from February 6, 1997 to February 26, 1997 was not available.

The next table reflects the composition of the bank's loan portfolio based on the March 31, 2001 call report. As indicated below, the primary loan type based on total outstanding loans is commercial and commercial real estate and residential real estate loans.

Product Category	Gross Loans as of March 31, 2001*	
	Dollar (000's)	Percent
Commercial and Commercial Real Estate	\$68,876	46%
Residential Real Estate	\$42,211	29%
Other	\$207	0%
Consumer	\$35,159	24%
Credit Card	\$1,497	1%
Loans secured by farmland	\$282	0%
Total	\$148,232	100%

* Data obtained from Call report

Considering this information, the report will focus on loans secured by autos, indirect auto, residential real estate, and commercial loans.

DESCRIPTION OF THE ROANOKE MSA

The bank has one assessment area consisting of a majority of the Roanoke MSA. Management excludes the Botetourt County portion of the Roanoke MSA from their assessment area because existing branches are not convenient to Botetourt County residents. Botetourt County does not contain any low- or moderate-income census tracts. Therefore, the assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The assessment area consists of the Cities of Roanoke and Salem and the County of Roanoke. Roanoke, VA is located midway between New York City and Atlanta, Georgia on Interstate 81, 168 miles west of Virginia's state capital, Richmond. The city is the center of one of Virginia's largest metropolitan regions, and a hub of transportation, finance, and industry for the southwestern part of the state. This assessment area is comprised of 47 census tracts, all of which are included in the Metropolitan Statistical Area (MSA). The population of the Roanoke MSA is approximately 228,000 and is characterized by a low cost of living, affordable housing, and low unemployment. Unemployment as of October 2000 was 1.3 percent compared to the state average of 2.3 percent. The area's top three industries by distribution of employees are services, retail trade, and construction. Largest employers (by number of employees) include First Union National Bank, Carilion Health System, Allstate Insurance, and Hanover Direct. Competition in this assessment area is high consisting of commercial banks, credit unions, mortgage banking firms, consumer finance companies, brokerage firms, etc.

Demographic data, based upon the information from the United States Bureau of the Census as of 1990, reveals the population of the assessment area is 199,485. The bank's assessment area comprises 80,507 households and 55,131 families. Of the total households within the assessment area, 11% (8,679) are below poverty level. The following table includes general demographic data describing the assessment area.

Demographic Characteristics of the Assessment Area		
<u>Number of Tracts by Income Level:</u>	Low-Income	3
	Moderate-Income	8
	Middle-Income	21
	Upper-Income	10
	N/A	5
<u>Percent of Tracts by Income Level:</u>	Low-Income	6.38%
	Moderate-Income	17.02%
	Middle-Income	44.68%
	Upper-Income	21.28%
	N/A	0.00%
<u>Percent of Population in each Tract</u>	Low-Income	3.86%
	Moderate-Income	14.79%
	Middle-Income	53.81%
	Upper-Income	27.54%
<u>Percent of Families by Income Level:</u>	Low-Income	19.15%
	Moderate-Income	18.59%
	Middle-Income	24.50%
	Upper-Income	37.76%
<i>Median Housing Characteristics</i>	Median Home Value	\$67,907
	Percent Owner Occupied Units	61.72%
	Median Gross Rent	\$357
<u>Median Income Data:</u>	1990 Census Median Family Income	\$34,942
	Updated Median Family Income	\$52,900

One community contact from a prior regulatory agency evaluation (Habitat for Humanity) was used as well as one new community contact interview with the Department of Economic Development for Roanoke City. Contacts indicate community credit needs include small dollar consumer loans and small business loan products. Overall, these representatives indicated the performance of local financial institutions is satisfactory.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the level of competition in the assessment area and the bank's size. A review of bank data reveals that SB&T is similarly situated to First National Exchange Bank, Bank of Botetourt, and Valley Bank. All institutions are similar in asset size, offer similar credit products, operate in the same assessment area, and are considered small banks under CRA guidelines. The following table reflects the average loan to deposit ratio of SB&T and the similarly situated banks:

Institution Name	Average Loan to Deposit Ratio Fourteen quarters beginning December 31,1997
First National Exchange Bank	55.2%
<i>Salem Bank and Trust</i>	72.9%
Bank of Botetourt	78.9%
Valley Bank	82.2%

Lending in Assessment Area

A majority of the bank's lending activity is to borrowers and businesses within its assessment area. Of the total sample of 723 loans, (663 HMDA, 19 commercial, 20 loans secured by auto, and 21 indirect auto loans), 545 or 75% were made within the assessment area.

Bank records reveal that management originated a total of 4,346 loans secured by autos and 2,463 indirect autos between February 27, 1997 to July 30, 2001. In addition, management originated 663 residential real estate loans during 1999 and 2000. The analysis of lending in the bank's assessment area included a sample of 20 loans secured by autos, 21 indirect auto loans, and 19 business loans that originated during 1999 and 2000 (the sample period). The analysis also included a review of 1999 and 2000 HMDA information for residential real estate loans. The tables that follow summarize the results of our review of loans made in the bank's assessment area.

Assessment Area	Loans Secured by Autos				Indirect Auto Loans			
	Sample Number of Loans		Sample Dollar of Loans		Sample Number of Loans		Sample Dollar of Loans	
	#	%	\$	%	#	%	\$	%
Inside	17	85	162,679	89	14	67	179,350	70
Outside	3	15	19,868	11	7	33	76,938	30
Total	20	100	182,547	100	21	100	256,288	100

Assessment Area	Residential Real Estate				Business			
	Sample Number of Loans		Sample Dollar of Loans		Sample Number of Loans		Sample Dollar of Loans	
	#	%	\$	%	#	%	\$	%
Inside	495	75	40,884,000	73	19	100	1,506,052	100
Outside	168	25	14,868,000	27	0	0	0	0
Total	663	100	55,752,000	100	19	100	1,506,052	100

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

Salem Bank and Trust has a good distribution of loans among borrowers of different income levels and to businesses of different sizes. The primary product lines are loans secured by autos, indirect loans, residential real estate loans, and business/commercial loans.

The analysis of consumer installment/term loans was based upon the Department of Housing and Urban Development's (HUD) estimated updated median family income (MFI) for the Roanoke MSA. The following table provides information on how each income level is defined.

Borrower Income Levels for Calendar Year 2000	2001 Updated MFI Roanoke MSA	
	Low Range	High Range
Low-income borrowers 0 to 50 percent of MFI	\$0	\$26,450
Moderate-income borrowers 50 to 80 percent of MFI	\$25,601	\$42,320
Middle-income borrowers 80 to 120 percent of MFI	\$42,321	\$63,480
Upper-income borrowers Above 120 percent of MFI	\$63,481	Above

The analysis of lending to borrowers of different income levels included the sample of 17 loans secured by autos, 14 indirect auto loans, and 468 residential real estate loans that were originated within the assessment area. Another 3 loans secured by autos and 5 indirect auto loans were selected to bring the sample totals to 20 and 19, respectively. The following tables contain distribution information on the loans secured by autos, indirect auto, and residential real estate loans. The tables reflect satisfactory penetration among borrowers of different income levels, including low- and moderate-income individuals.

Borrower Income Classification Level	Loans Secured by Autos				Indirect Auto Loans				% of Families in AA
	Sample Number of Loans within the AA		Sample Dollar Amount of Loans within the AA		Sample Number of Loans within the AA		Sample Dollar Amount of Loans within the AA		
Low	10	50%	\$99,448	47%	6	32%	\$48,046	20%	19.15%
Moderate	7	35%	\$73,803	35%	8	42%	\$107,699	44%	18.58%
Middle	1	5%	\$16,048	8%	2	10%	\$28,507	12%	24.51%
Upper	2	10%	\$21,619	10%	3	16%	\$58,288	24%	37.76%
Total	20	100%	\$210,918	100%	19	100%	\$242,540	100%	100.00%

Residential Real Estate Loans					
Borrower Income Classification Level	Sample Number of Loans Within the Assessment Area		Sample Dollar Amount of Loans Within the Assessment Area		Percent of Families Within the AA
	Low	70	15%	\$3,482,000	
Moderate	117	25%	\$7,469,000	19%	<i>18.58%</i>
Middle	130	28%	\$9,641,000	25%	<i>24.51%</i>
Upper	151	32%	\$18,253,000	47%	<i>37.76%</i>
Total	468	100%	\$38,845,000	100%	<i>100.00%</i>

*27 loans totaling \$2,039,000 did not have income information.

Based on a sample of 20 business/commercial loans made during 1999 and 2000, SB&T has a satisfactory record of making loans to businesses of different sizes. Of the 20 business loans located in the bank's assessment area, 16 had gross revenue information. Of those 16 business/commercial loans, 15 or 94% were made to businesses with annual gross revenues of \$1 million or less. This indicates SB&T is meeting the credit needs of their community based on information obtained from our community contacts. The community contacts identified small business loans as a credit need in the community. The 2001 business demographic data reported 8,740 businesses in the assessment area of which 7,542 or 86% have gross annual revenues of less than \$1 million.

Geographic Distribution of Loans

Overall, the bank has a reasonable penetration of credit in its assessment area. Low- and moderate-income tracts represent 11 of the 47 tracts in the assessment area. While loans have been extended in most census tracts, there is low penetration in several moderate-income tracts. However, lending patterns are reasonable given the small percentage of the population living in these tracts and the location of the branches.

The following table illustrates the geographic distribution of loans secured by autos and indirect auto loans within the income tracts in comparison to the percentage of population in each tract category. There is no penetration in the low-income tracts. This is attributed to the locations of the branches as well as the low percentage of population located in these tracts.

Tract Income Level	Loans Secured by Autos				Indirect Auto Loans				% of Population in Tract
	Sample Number of Loans within the AA		Sample Dollar Amount of Loans within the AA		Sample Number of Loans within the AA		Sample Dollar Amount of Loans within the AA		
Low	0	0%	\$0	0%	0	0%	0	0%	<i>3.86%</i>
Moderate	3	15%	\$50,522	24%	1	5%	\$13,646	6%	<i>14.79%</i>
Middle	15	75%	\$138,371	66%	13	69%	\$148,275	61%	<i>53.81%</i>
Upper	2	10%	\$22,025	10%	5	26%	\$80,619	33%	<i>27.54%</i>
Total	20	100%	\$210,918	100%	19	100%	\$242,540	100%	<i>100.00%</i>

The table below illustrates the geographic distribution of HMDA loans within the income tracts in comparison to the percentage of owner occupied housing. All tracts show reasonable penetration when compared to the percent of owner-occupied housing in each tract.

Residential Real Estate Loans					
Borrower Income Classification Level	Sample Number of Loans Within the Assessment Area		Sample Dollar Amount of Loans Within the Assessment Area		Percent of Owner-Occupied Housing in Each Tract
Low	8	2%	\$439,000	2%	1.90%
Moderate	55	17%	\$3,780,000	13%	10.86%
Middle	165	50%	\$12,979,000	46%	55.85%
Upper	105	31%	\$10,905,000	39%	31.39%
Total	333	100%	\$28,103,000	100%	100.00%

*SB&T does not record census tract information on HMDA reportable loans made within the City of Salem because the population is below 30,000. Therefore these loans were excluded from the geographic distribution portion of this analysis (162 loans totaling \$12,781,000).

The table below illustrates the geographic distribution of business loans within the income tracts in comparison to the percent of businesses located in each tract category. Penetration in the low- and moderate-income tracts is reasonable based on the percent of businesses located in these tracts.

Business Loans					
Borrower Income Classification Level	Sample Number of Loans Within the Assessment Area		Sample Dollar Amount of Loans Within the Assessment Area		Percent of Businesses in Each Tract
Low	3	15%	\$112,664	7%	10.98%
Moderate	1	5%	\$18,623	1%	10.17%
Middle	14	70%	\$1,402,576	89%	25.90%
Upper	2	10%	\$49,189	3%	52.95%
Total	20	100%	\$1,583,052	100%	100.00%

Responses to Complaints

Salem Bank and Trust has not received any CRA-related complaints since the February 6, 1997 CRA examination.

Fair Lending Review

An analysis of public comments and consumer complaint information during this evaluation period and 2000 HMDA information was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1992.