

PUBLIC DISCLOSURE

February 27, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers and Merchants Trust Company of Chambersburg
08405**

**20 South Main Street
Chambersburg, Pennsylvania 17201**

**Federal Deposit Insurance Corporation
20 Exchange Place
New York, New York 10005**

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.

LENDING, INVESTMENT, AND SERVICE TEST TABLE:

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

PERFORMANCE LEVELS	<u>F&M TRUST</u>		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			X
High Satisfactory	X		
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

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

Tables 7 and 8 show that F&M Trust's 2007 small business lending in moderate-income areas exceeded the other lenders by both number and dollar amount of loans, respectively. The bank's performance was in line with the percent of businesses located in those tracts. Despite competing against large, out-of-area institutions that have more resources and capacity for small business lending (i.e. Chase, Citibank, American Express), F&M Trust captured a 2 percent market share by number of loans, in 2007. The bank ranked 11th out of 77 lenders who reported making small business loans throughout Cumberland, Franklin, Fulton, and Huntingdon Counties. More notably, the bank ranked third with an 8 percent market share, by dollar amount. In the Non-MSA assessment area alone, F&M Trust ranked ninth with a 4 percent market share, by number, and second with a 17 percent market share, by dollar amount.

COMMUNITY DEVELOPMENT LOANS

A community development loan is a loan that has as its primary purpose community development. The loan cannot have been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as home mortgage, small business, small farm, or consumer loan, unless it is a multi-family loan. Additionally, the loan must benefit the assessment area or a broader statewide or regional area that includes the bank's assessment area. The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

F&M Trust is a leader in making community development loans within its assessment area. During the review period, the bank originated **12 loans**, to qualified non-profit and for-profit entities, totaling over **\$17.8 million**. All of the loans have community development as their primary purpose and assist in the revitalization or stabilization of low- or moderate-income geographies within the bank's assessment area.

- In 2008, the bank extended an \$8.4 million loan to a local area development corporation to build an office and production facility. The organization is dedicated to economic development in the Chambersburg and Franklin County area.
- In 2008, F&M Trust extended one loan for \$1 million to a non-profit organization that offers programs to low- and moderate-income senior citizens living in housing facilities in Cumberland County.
- In 2007, the bank extended six loans totaling \$1.6 million to a non-profit corporation for working capital, down payments, and a vehicle purchase. The organization provides mental health and mental retardation assistance to those in need. The corporation serves a larger regional area which includes Franklin and Fulton Counties.

HARRISBURG-CARLISLE MSA 25420

SCOPE OF EXAMINATION:

Refer to the scope comment within the overall performance

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 25420:

The bank's Harrisburg-Carlisle MSA Assessment Area consists of 20 out of 43 census tracts in Cumberland County (7 moderate-, 10 middle-, 3 upper-income). F&M Trust operates eight branches within Cumberland County and holds a two percent of the deposit market share.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 25420:

The majority of F&M Trust's home mortgage and small business loans were originated in the bank's non-MSA assessment area. In MSA 25420, 139 of the 942 (15 percent) home mortgage loans and small business loans originated during 2007 were made in MSA 25420. The bank's borrower distribution of home mortgage and small business loans in MSA 25420 is good, consistent with its overall performance. However, F&M Trust's geographic distribution of loans in MSA 25420 is excellent as the bank exceeds the performance of other lenders in originating both HMDA and small business loans in moderate-income census tracts. The bank's community development activity is adequate. F&M Trust originated a \$1 million community development loan in 2008, to a non-profit organization that offers programs to low- and moderate-income senior citizens living in housing facilities in Cumberland County. F&M Trust does not have any equity investments in MSA 25420; however, the bank has made community development donations in the MSA. The bank also provided an adequate level of community development services in MSA 25420