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Issue: August 3, 2022



F & M Bank: all-in on the Success of the Shenandoah Valley Marketplace



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CEOCFO: *Mr. Hanna, has your role at F & M Bank Corp. changed since we spoke in December of 2019?*

Mr. Hanna: No, I have the same title and responsibilities as before but the bank has changed for the last few years and with that some of the focus has shifted.

CEOCFO: *Has there been any significant changes to your team over the past few years?*

Mr. Hanna: Yes, we have several new additions to our team. Our Chief Credit Officer retired in September of 2020 and we replaced that gentleman with Paul Eberly who was working for us as head of our AG lending team. He is now our Chief Credit Officer. Barton Black was realigned to Chief Operating Officer. We brought in a gentleman named Garth Knight, he is Our Chief Banking Officer and heads up all the retail as we determine what our consumers are looking for from the bank in the future and how we leverage our retail franchise.

We were very fortunate about a year-and-a-half ago to bring over a very strong group of individuals that moved us into a new market. We expanded our footprint slightly since we last talked, and we added the Winchester market which is contiguous to our existing footprint but it pushes us a little bit north and up I-81 corridor and possibly a little bit west. In Winchester we picked up a group of six individuals and that

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group was led by a gentleman named Mike Wilkerson. He is a fantastic leader and was a business banking manager for the Mid-Atlantic with Wells Fargo. He is now our Chief Lending Officer.

Stephanie Shillingburg is still with us, her title shifted to Chief Experience Officer. She takes on our operations and technology side of the house to look at processes, infrastructure and technology, to make sure that we have everything in place that our clients are looking for as we continue to grow. We are about \$1.25 billion today which is a pretty good increase from when we last talked in December of 2019.

CEOCFO: *Are you still community and small to midsized business focused?*

Mr. Hanna: Very much. We added one market to the northern part of our market but we are still a contiguous footprint and still very much in the same communities that we served. We remain focused on the Shenandoah Valley. Yes, the driving force for us is going to be the commercial and small business segment. We have a full-service bank and continue to reach out to the consumer needs as well but the growth is going to come primarily from the small to mid-sized business community.

CEOCFO: *Would you tell us about the businesses in your community? Is agriculture, manufacturing, distribution, commercial real estate development, and residential real estate development still the strength of community, providing jobs and community development?*

Mr. Hanna: Very much so, all those areas that you mentioned are robust here in our footprint. We are F & M Bancorp, which stands for Farmers and Merchants. We have been around for 114 years. We were not aggressive a few years ago in the "farmers" part of that equation and we brought aboard a gentleman named Paul Eberly. He has added people like Bobby Williams and Daniel Scott to our Agricultural efforts. Our Ag loans have been the fastest-growing segment of our loan portfolio.

We have an indirect automotive finance team that has done an exceptional job. They continue to outperform all expectations in good markets and bad. We are looking at strategies to maybe deepen our relationships with some of the dealer clients that that group has cultivated over the years. That is an area of focus for us.

CEOCFO: *Which of the different industries that you serve provides the greatest revenue potential for your bank today?*

Mr. Hanna: It is pretty broad-based. Like I said, probably the fastest-growing segment of our portfolio has been in AG the last several years. We are in some very strong agricultural markets such as Rockingham County where the bank has its roots is the #1 AG producing region in the Commonwealth of Virginia. We have a strong presence in Augusta County which is actually the second AG producing county in Virginia. AG is a big piece of our business as we move forward and we think it is going to be an outsized piece of our growth as we move forward.

The businesses that we serve are pretty diversified. We have had a lot of success in what I would call the C&I base, commercial and industrial. We have added a lot of manufacturing companies and distribution companies over the last several years and those are great because pretty much those businesses rely on operating lines, they need real estate loans but that is for their plant and equipment. We have been successful with those businesses also because they tend to be relational as opposed to making a real estate or equipment loan, when you have a business operating line to provide capital for receivables and inventory, we have leveraged that to really grow deposits significantly.

All banks have benefitted with deposit growth over the pandemic or at least I think most banks. We have actually grown more than double the industry norm in terms of our deposit growth and I attribute a lot of that to a big focus that we made in going after deposit clients and the types of clients that would tie back to that C&I space.

CEOCFO: *What are some of your product offerings and where do you see the greatest growth coming from?*

Mr. Hanna: We focused a lot on trying to ramp-up our deposit capabilities. Areas where we have invested would be online banking, mobile banking and what businesses would call treasury services and cash management products. We have added a lot in terms of digital, really all geared to supporting that. It is not all deposit focused; we are working on an online lending portal, an automated small business lending system that we think will really help the small businesses in our community. Those are the primary focuses.

CEOCFO: *Are you still 50/50 split between being a business/commercial bank and a consumer bank or has there been a change there over the past 2 years?*

Mr. Hanna: It has probably shifted, not that we have any fewer consumers today, as a matter of fact we have more. I think we reach more consumers today but I think more of our growth has occurred in the commercial space, and with that it is more of an economies of scale. A typical household account may bring the deposit balance in a checking account to \$2500 give or take.

We are bringing in some large commercial accounts that in many cases have three to five million dollars in checking account balances and even some above that. While we are seeing growth on the commercial side, it is the size of those relationships that is probably tipping the scale. We are probably a little bit more commercial to consumer at this point but we are not turning our back on either market, to be sure.

CEOCFO: *Would you tell us about your investment division and how it is performing today?*

Mr. Hanna: Our broker dealer is Infinex Financial Group out of Connecticut. Infinex has more than 750 registered financial advisors, and we have two of the top-performing individuals with us at F & M. They consistently rank on the top 25-50 of that broker dealer platform nationwide. We have continued to invest around that team. We have two more financial advisors today that we did not have a year ago. They are

providing support and helping us grow in new markets, so we are excited about where the investment team is headed.

CEOCFO: *With the rise of online banking and mobile apps, and COVID, is the personal touch still important for you and your customers or do you find with the newer generations that are in the workforce these things don't matter as much?*

Mr. Hanna: I think it is both. There was a shift even before the pandemic, to digital. It is happening everywhere. With COVID, most industries I think accelerated some of that shift to a more digital consumption-based for banking and household items. We see it in grocery shopping of all things. We are no different. Our clients pivoted and use far more digital services than they did going into the pandemic. We see that what they value is a combination. They want and require the digital products and services but they also want the personal relationships. They want to know they can rely on personal touch when there is a problem or a question, a challenge or opportunity.

They also appreciate the opportunity to come into our branch and pick up the phone and talk to people that will commit the time to understand what is impacting them, and then bring their skills to providing recommendations and solutions to their needs. If it was all going digital, we would realize that we couldn't spend the resources on digital as some of the large national banks can but we think that at least in the markets that we serve that there is a strong number of folks that appreciate the personal touch in conjunction with having the full array of digital products and services. That is where we are trying to play that divide, if you will.

CEOCFO: *Has there been many changes in the communities you service? Are you seeing more expanding and growing urban and sub-urban areas? Are there more people from D.C. coming over to Virginia?*

Mr. Hanna: Our communities have certainly grown. You think of all the high-growth areas of the country, we are not in the top-five percent but we have certainly seen growth. During the pandemic one of the things that we saw was folks leaving urban areas and seeking out more suburban areas. Working from home became more popular, the ability to work remotely with less time in the office. We saw that in our footprint and our communities. We saw a number of folks move here from more densely populated areas.

We have a number of farmettes, farms or beautiful homes in suburban type markets with mountain views and outdoor activities. We have definitely seen growth as people have moved here to take advantage of our communities. We also have a strong economy. We have one of the strongest agricultural bases here. We have a number of universities and colleges in our footprint. James Madison is one of the fastest-growing universities in Virginia and our economy has benefitted from that. We have a fairly robust industrial base.

I-81 that cuts through the Shenandoah Valley is one of the main trucking routes along the east coast. That brings logistics, distribution and a number of opportunities for more economic growth in our footprint. If I

had to characterize it all, I think we have seen solid growth across many industries and for many reasons which I think is healthy and a positive for where we are.

CEOCFO: *Has changes in your community affected your growth strategy?*

Mr. Hanna: Over the years we had moved away from the AG markets a little bit, but we now have put a huge emphasis on being very active in the agricultural communities.

In terms of the growth changing who we are, the answer to that is no. We want to serve the communities we are in, in their entirety. We think we do a good job of reaching out to everybody in all industries.

CEOCFO: *When we last spoke you had 14 branches. Has there been any changes there?*

Mr. Hanna: We had opened up a number of de novo branches over the past 5-8 years and we ended up closing three branches, I believe it was the summer of 2020. They were in markets where we could not get the growth that we needed to support the investment and the overhead that it took to operate those branches. After much discussion with the board we realized there just was not a path to get to a sustainable level of clients and deposits that would offset the costs to support those offices. We closed three branches, but on the flipside we bought a branch from another bank in Waynesboro which is a large economy in our footprint and we were not in that area, so that was a good acquisition for us.

As I mentioned earlier, we moved into the Winchester market. In April of this year, we opened up the branch to serve that market and plans are in place to open another branch in the Winchester market. I am not quite sure when that will be ready, we have acquired the real estate and we are doing some renovations to it. We expect that branch will be ready probably first quarter of next year depending on construction time.

CEOCFO: *Is branding a focus for you? Is there a look and feel so when they look at a bank, they know it is F & M BANK?*

Mr. Hanna: We are striving for that. We have a branch template so we have several branches that look very much the same. We have some unique branches that are not based on that template, maybe because of age or how they came in but we have worked to create design elements that connect all of our offices to a fairly similar look on the exterior and most of the design elements on the interior are common. We are trying new things with technology especially with some of our newer branches.

Sometimes we will try things in an office and see what the customer adoption of that technology is, and if it is successful, we have plans maybe to roll it out to all our branches. If it is not successful, then at least we tried and we know what does not really gain any traction. I would not say that all branches are the same but we do try to create consistency in look and markets. That said, we have been in Rockingham County, the center of our footprint, for 114 years.

So back to your question about branding and name recognition. In Rockingham County and Harrisonburg, the F & M name is very strong. We have been around for a long time and most everybody knows the

bank. I think we have a strong perception of who we are and what we do in our communities. As we move our footprint into new markets such as Winchester, and a few years before that it was Augusta County, we have to go into those markets and build that awareness and perception. We have to create the brand and identity and what we stand for. That is obviously easier said than done. Marketing helps but it is a lot of one-one-one efforts to build relationships and let people know who we are and what we stand for.

CEOCFO: *Since 2019, we have seen COVID and now inflation and economic challenges? How have you helped your customers deal with these challenges?*

Mr. Hanna: I think a lot of it is just on a one-off level. We have done a number of things. Early in the pandemic before PPP came out, we worked with some community organizations to launch small business lending grants in all three of the markets we were in at the time which was Shenandoah County, Rockingham County, Harrisonburg and Augusta County, Staunton area. We gave \$100 thousand across our footprint to fund grants to small businesses that were struggling at the onset of the pandemic, so that would have been around March of 2020, because PPP rolled-out just after we started those efforts. We have done a lot to try to educate and inform clients in terms of resources that were out there because a lot of the resources that were out there are not bank resources. There are things like the ERC and EIDL loans that are not issued through banks. We tried to bring ourselves up to speed so that we could tell our clients what resources were out there and direct them accordingly.

As their businesses grow and local communities prosper, the bank certainly has a symbiotic relationship with our communities, that we will grow and prosper as well. Even if it is not a bank product or service, or even if it is people that do not bank with F&M, if their business is growing and the economy is growing, we feel there is a benefit to the bank. A rising tide lifts all ships. We brought ourselves up to speed and educated ourselves so that we could be consultative to our clients during these tough times. I think those are the biggest things that we have done.

We have been very active in the small business grant programs but we continue to be active with all civic organizations and our communities. We are very active in terms of giving back financially in our communities but it is not just the banks resources, we encourage all of our employees to get out and be active and involved in civic organizations and put boots on the ground and give back. Our folks have taken to that and we have an active workforce that understands that there is much we can do to help others in our communities.

CEOCFO: *What is your current funding position? Is reaching out to investors important for F & M today?*

Mr. Hanna: Oh absolutely it always is. Our funding position in terms of the banks funding and liquidity, we are very liquid. When you and I talked back in December of 2019, our loan and deposit ratio was probably close to 110%, we did not have enough deposits to fund the loans on our books at that time, so we were borrowing from FHLB and

other sources. Today we have changed that. In 2018 we were 112% loan to deposit and today we are about 59% loan to deposit ratio. We have grown deposits significantly over the last 2.5 to 3 years. A lot of that is pandemic related and a lot is just our focus on growing deposits and the investments we made in products and services we offer. That is part of our funding.

The other part that you may be referring to is the investor base. We are a publicly traded company and our investors are extremely important. We have three critical stakeholders and if we lose sight of any of those three, we are going to fail. That is our clients, employees, and shareholders. Our shareholders are critically important. We do spend a lot of time trying to reach out and communicate with them.

It is not always easy because many of our shares are held in what we call street names, so we do not always know who our shareholders are but we like to certainly make ourselves accessible to them. We get a lot of calls and questions and to the degree that we can we like to share how the bank is doing and what we are trying to accomplish. We love to talk to our shareholders and get their questions and get their thoughts as well.

CEOCFO: In closing, how important is F & M Bank to the growth of the Shenandoah Valley that you serve? Is community involvement important for you?

Mr. Hanna: We have five core values and the #1 core value is community. We take our communities very seriously. Many banks are kind of hopscotching to different places to get into high growth economic markets. I respect those decisions. We are grounded right here in the Shenandoah Valley. We are not jumping around to go to the hot new sexy market. We moved into Winchester which I said was contiguous to our northern most markets, so that was a logical move for us and a logical extension of our existing footprint.

We are all-in on the success of the Shenandoah Valley marketplace. As I said earlier it is very much a symbiotic relationship. We feel that as the Shenandoah Valley economy grows and prospers, F&M bank should grow and prosper along with it. We also feel that as F&M bank grows and prospers, we think we are a big contributor to the growth of the Shenandoah Valley economy. We think it is good for all parties.

We like to encourage folks who have deep roots in the Shenandoah Valley to understand that relationship and hopefully support F&M and know that if they entrust F&M with their financial needs, that we will be reinvesting back into our communities. We hope that will also makes their business, their community, their neighborhoods, their civic needs, even stronger. We hope that they get that connection.



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