



PUBLIC DISCLOSURE

November 10, 2025

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Highlands Community Bank

Covington, Virginia

**Federal Reserve Bank of Richmond
Richmond, Virginia**

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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RSSD 3125315

307 Thacker Avenue
Covington, Virginia 24426

Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

INSTITUTION'S CRA RATING: **Satisfactory**

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable given the bank's size, financial condition, and credit needs of the assessment area.
- A substantial majority of the bank's residential real estate and small business loans considered in this evaluation were made in the bank's assessment area.
- The bank's borrower distribution performance (lending to individuals of different income levels and businesses of different sizes) varies by product and is considered reasonable overall.
- The bank's geographic distribution performance (lending in census tracts of varying income levels) is considered reasonable for residential real estate and small business lending.
- There have been no complaints regarding the bank's CRA performance since the previous CRA evaluation.

SCOPE OF EXAMINATION

Highlands Community Bank (HCB) was evaluated using the interagency examination procedures for small institutions developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures and based upon the dollar volume of recent loans originated by the institution, residential real estate and small business loans were identified as primary credit products for the bank. HCB is not subject to Home Mortgage Disclosure Act (HMDA) or Community Reinvestment Act (CRA) data reporting requirements.

Examiners reviewed the following data when assessing the bank's performance:

- The universe of residential real estate loans originated during calendar years 2023 and 2024
- The universe of small business loans originated during calendar year 2023

As of the date of this evaluation, aggregate data from 2024 is available for residential real estate; however, it is not yet available for small business loans. Because the aggregate data captures lending done under the same economic market conditions, it is an important performance context factor needed to evaluate the bank's lending performance. Consequently, the bank's 2024 small business lending is not included in this evaluation.

HCB serves one assessment area (Alleghany, VA NonMSA) within the Commonwealth of Virginia, which was evaluated using the FFIEC's full-scope review procedures. A community official was contacted to learn about local economic conditions and credit needs.

DESCRIPTION OF INSTITUTION

HCB is headquartered in Covington, Virginia and operates three full-service branches with automated teller machines (ATMs) in the western portion of Virginia. The bank’s previous CRA rating, dated January 27, 2020, was Satisfactory. No known legal impediment exists that would prevent the bank from meeting the credit needs of its assessment area.

As of September 30, 2025, HCB held \$189.3 million in assets, of which 46.9% were net loans and 42.8% were securities. As of the same date, deposits totaled \$168 million. Various deposit and loan products are available through the institution, including loans for residential mortgage, consumer, and commercial purposes. The composition of the loan portfolio using gross loans is represented in the following table.

Composition of Loan Portfolio

Loan Type	9/30/2025	
	\$(000s)	%
Secured by 1-4 Family dwellings	32,463	36.0
Multifamily	2,922	3.2
Construction and Development	5,812	6.4
Commercial & Industrial/ NonFarm NonResidential	32,733	36.3
Consumer Loans and Credit Cards	13,022	14.4
Agricultural Loans/ Farmland	41	0.0
All Other	3,222	3.6
Total	90,215	100.0

As indicated in the preceding table, the bank’s loan portfolio is concentrated in residential real estate and commercial purpose loans. Small business loans are a subset of commercial and industrial loans which comprise 36.3% of the bank’s loan portfolio. The bank offers other loans, such as consumer and construction and development; however, the dollar volume of such lending is relatively limited in comparison to its residential mortgage and commercial lending.

As previously mentioned, HCB serves one assessment area in the western portion of Virginia. There have been no branch openings or closures, and the composition of the Alleghany, VA NonMSA assessment area remains unchanged since the previous evaluation.

NONMETROPOLITAN STATEWIDE AREA

DESCRIPTION OF INSTITUTION'S OPERATIONS IN ALLEGHANY, VA NONMSA ASSESSMENT AREA

HCB delineates one assessment area referred to as the Alleghany, VA NonMSA assessment area. The assessment area is located in the western region of Virginia and includes Alleghany and Bath Counties and the City of Covington, Virginia in their entirety. All three of the bank's full-service branches – one in Covington (main office), Clifton Forge, and Hot Springs – operate within the assessment area.

As of June 30, 2024, HCB ranked first out of six financial institutions in local deposit market share and held 32.9% of the assessment area's deposits (excluding credit union deposits) according to data compiled by the Federal Deposit Insurance Corporation.

Community Contact

A community development official was contacted during the evaluation to discuss local economic conditions and community credit needs. The contact described the local economy as constrained due to the continued impacts of population decline, deteriorating buildings and infrastructure, and limited developable land. Furthermore, the contact stated that Alleghany County and the City of Covington are seeking opportunities to revitalize and stabilize. Local housing stock and industrial infrastructure are in need of significant rehabilitation, and opportunities for new construction are scarce due to geographic limitations. While the contact indicated that area financial institutions are reasonably serving the banking needs of the community, it was noted that economic development opportunities still exist.

Demographic Data

Based on the 2020 American Community Survey (ACS) data, the assessment area served by the bank has a total population of 25,169 and a median housing value of \$116,817. Within the assessment area, the owner-occupancy rate equals 59%, which is higher than the rate in nonmetropolitan areas of Virginia (56.6%), but slightly lower than the rate in the Commonwealth of Virginia (60%). The percentage of families living below the poverty level in the assessment area equals 11.7%, which approximates the rate in nonmetropolitan areas of Virginia (11.4%), but is significantly above the statewide level (6.8%). The median family income for nonmetropolitan areas of Virginia equaled \$73,800 and \$73,900 in 2023 and 2024, respectively.

The following table provides pertinent demographic data for the assessment area.

2024 Alleghany, VA NonMSA AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,379	20.7
Moderate	0	0.0	0	0.0	0	0.0	1,069	16.0
Middle	8	80.0	5,588	83.7	652	11.7	1,396	20.9
Upper	2	20.0	1,088	16.3	130	11.9	2,832	42.4
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	10	100.0	6,676	100.0	782	11.7	6,676	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	11,583	7,008	82.8	60.5	1,894	16.4	2,681	23.1
Upper	2,776	1,457	17.2	52.5	383	13.8	936	33.7
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	14,359	8,465	100.0	59.0	2,277	15.9	3,617	25.2
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	623	80.5	565	80.5	46	83.6	12	70.6
Upper	151	19.5	137	19.5	9	16.4	5	29.4
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	774	100.0	702	100.0	55	100.0	17	100.0
Percentage of Total Businesses:				90.7		7.1		2.2
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	28	80.0	28	80.0	0	0.0	0	0.0
Upper	7	20.0	7	20.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	35	100.0	35	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0
Source: 2024 FFIEC Census Data 2024 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.								

As shown in the table above, the assessment area contains no low- or moderate-income census tracts. However, one of the eight middle-income census tracts is designated as underserved. A nonmetropolitan middle-income geography is designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs. More specifically, the single underserved middle-income tract in Bath County meets the dispersion criteria and is also considered remote rural.

Alleghany, VA NonMSA Population Change			
Area	2015 Population	2020 Population	Percent Change
Alleghany, VA NonMSA 24	26,385	25,169	-4.6%
Alleghany County, VA	16,066	15,223	-5.2%
Bath County, VA	4,583	4,209	-8.2%
Covington city, VA	5,736	5,737	0.0%
NonMSA Virginia	1,093,765	1,068,638	-2.3%
Virginia	8,256,630	8,631,393	4.5%

*Source: 2011-2015 U.S. Census Bureau American Community Survey
2020 U.S. Census Bureau Decennial Census*

The preceding table details population changes from 2015 to 2020 within the assessment area, as well as nonmetropolitan areas of Virginia and the entire Commonwealth. While both the assessment area and nonmetropolitan areas of Virginia experienced population decline of 4.6% and 2.3%, respectively, the entire Commonwealth experienced population growth of 4.5% during the same period. Within the assessment area, Bath County experienced the greatest population decline during this period, followed by Alleghany County, while Covington City’s population remained stable.

Alleghany, VA NonMSA Employees by Industry								
	2023 - Q1	2023 - Q2	2023 - Q3	2023 - Q4	2024 - Q1	2024 - Q2	2024 - Q3	2024 - Q4
Government								
Government Total, all industries	1,860	1,887	1,720	1,838	1,876	1,844	1,684	1,857
Private Sector								
Private Sector Total, all industries	7,359	7,483	7,512	7,458	7,291	7,487	7,506	7,445
Agriculture, forestry, fishing and hunting	0*	0*	14*	0*	11*	12*	12*	11*
Mining, quarrying, and oil and gas extraction	0*	0*	0*	0*	0*	0*	0*	0*
Utilities	0*	0*	0*	0*	0*	0*	0*	0*
Construction	634	118*	95*	0*	91*	99*	101*	107*
Manufacturing	560*	562*	553*	563*	548*	527*	510*	507*
Wholesale trade	60*	58*	69*	51*	47*	42*	42*	0*
Retail Trade	879	902	889	898	889	879	838	851
Transportation and warehousing	105*	109*	92*	94*	104*	105*	109*	268*
Information	25*	32*	39*	37*	33*	34*	35*	36*
Finance and insurance	99*	117	104*	97*	99*	102*	102*	102*
Real estate and rental and leasing	31*	56*	48*	29*	32*	50*	32*	48*
Professional and technical services	212	208	229	230	238	232	231	234
Management of companies and enterprises	0*	0*	0*	0*	0*	0*	0*	0*
Administrative and waste services	64*	66*	60*	61*	62*	67*	71*	68*
Educational services	82*	77*	76*	81*	76*	74*	71*	73*
Health care and social assistance	826*	819*	834*	825*	822*	844*	848*	848*
Arts, entertainment, and recreation	12*	30*	53*	30*	19*	0*	50*	0*
Accommodation and food services	334*	361*	351*	328*	324*	0*	327*	0*
Other services, except public administration	258	267	262	266	273	283	269	274
Public administration	0	0	0	0	0	0	0	0
Unclassified	11*	14*	18*	9*	9*	8*	7*	7*

*Source: Bureau of Labor Statistics (BLS), Quarterly Census of Employment and Wages
* indicates that some or all of the data for this category was suppressed for confidentiality reasons*

The bank’s market area offers some variety of employment opportunities. In addition to local government and school boards, major employers include those within the health care and social assistance, manufacturing, and retail trade industries.

Alleghany, VA NonMSA Unemployment Rates					
Area	2020	2021	2022	2023	2024
Alleghany, VA NonMSA 24	8.8%	4.8%	3.3%	3.4%	3.7%
Alleghany County, VA	7.4%	4.4%	3.4%	3.5%	3.9%
Bath County, VA	11.8%	5.0%	2.6%	2.9%	2.6%
Covington city, VA	10.2%	5.8%	3.9%	3.8%	4.1%
NonMSA Virginia	7.4%	4.6%	3.4%	3.4%	3.6%
Virginia	6.5%	3.8%	2.7%	2.7%	2.9%

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

During a recent five-year period, average annual unemployment rates throughout the assessment area reflect a decline since the COVID-19 pandemic. Since 2022, rates have generally been less than half of the heightened levels experienced during 2020. The assessment area’s average annual unemployment rates have approximated the rates for nonmetropolitan areas of Virginia but exceeded the rates for the entire Commonwealth during this time period.

Alleghany, VA NonMSA Housing Cost Burden						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Alleghany, VA NonMSA 24	55.6%	15.8%	28.8%	38.2%	18.2%	13.9%
Alleghany County, VA	50.4%	31.0%	32.7%	36.6%	13.7%	12.4%
Bath County, VA	55.9%	0.0%	23.2%	37.3%	50.0%	18.0%
Covington city, VA	75.8%	13.0%	24.8%	41.7%	18.8%	15.1%
NonMSA Virginia	65.2%	30.6%	36.3%	51.1%	24.3%	17.4%
Virginia	77.1%	47.8%	42.1%	61.2%	35.6%	18.9%

Cost Burden is housing cost that equals 30 percent or more of household income
Source: U.S. Department of Housing and Urban Development (HUD), 2017-2021 Comprehensive Housing Affordability Strategy

Within the assessment area, low- and moderate-income renters experience lower housing cost burdens than renters in nonmetropolitan areas of Virginia and statewide. Similarly, low- and moderate-income homeowners in the assessment area experience lower housing cost burdens than homeowners in nonmetropolitan areas of Virginia and the Commonwealth overall. Additionally, in both the assessment area and statewide, housing cost burdens of both renters and homeowners are substantially higher for low-income households than for moderate-income households.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

When evaluating the bank’s 2023 and 2024 residential real estate lending, relevant area demographic data from the American Community Survey (ACS) is used to estimate potential demand and lending opportunities. While ACS data is collected and published by the U.S. Census Bureau on an annual basis, the demographic data relied upon in this performance evaluation is based on ACS data that is updated once every five years. As such, when evaluating the bank’s performance, relevant area demographic data from the 2020 ACS was used. Additionally, Dun and Bradstreet (D&B) business demographic data from 2023 was used when evaluating HCB’s 2023 small business lending.

Aggregate loan data is also used as a proxy for demand when evaluating the bank’s lending performance. Mortgage and small business aggregate data include all activity reported by lenders subject to HMDA and CRA data reporting requirements, respectively, within the bank’s assessment area. Aggregate data is useful in the analysis because the lending activity occurred in the same assessment area under the same economic conditions as the bank’s lending. Because the bank is not required to report HMDA or CRA data, its residential real estate and small business loans are not included in the aggregate data.

To evaluate the borrower and geographic distribution for a specific loan category within an assessment area, primary emphasis is placed on the number (and corresponding percentage) of loans originated and purchased. To arrive at an overall conclusion regarding the distribution of lending, performance in each loan category is then generally weighted by the dollar volume of such loans made in the assessment area. Within the assessment area, the bank originated residential real estate loans totaling \$4.6 million and small business loans totaling \$6.3 million during 2023. Accordingly, the bank’s small business lending performance carries slightly greater weight when evaluating the bank’s lending performance.

Loan-To-Deposit Ratio

The bank’s loan-to-deposit (LTD) ratio as of September 30, 2025 equaled 52.9%, and it averaged 60.7% for the preceding 23-quarter period. In comparison, the average quarterly loan-to-deposit ratios for five peer banks operating in HCB’s assessment area ranged from 69.8% to 87.5% during the same 23-quarter period. While these five banks operate in HCB’s assessment area, they are significantly larger with assets ranging from \$7.9 billion to \$535.5 billion, and they also operate in other markets with likely higher loan demand resulting in higher LTD ratios. Because of this, LTD data from banks similar in asset size operating in nonmetropolitan areas in Virginia was also considered. The average quarterly loan-to-deposit ratios for seven peer banks operating in nonmetropolitan areas in Virginia and having assets less than \$250 million ranged from 54.2% to 88.4% during the same 23-quarter period. Since the previous evaluation, the bank’s assets and deposits have increased by 23.1% and 27.7%, respectively, while net loans have decreased by 2.2%. From a CRA perspective, the bank’s loan-to-deposit ratio is considered reasonable given the institution’s size, financial condition, and local credit needs.

Lending In Assessment Area

To determine the institution’s volume of lending within its assessment area, the analysis considered the geographic location of its 2023 and 2024 residential real estate and 2023 small business loans. The lending distribution inside and outside of the bank’s assessment area is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Purchase	35	79.5	5,957	66.4	9	20.5	3,015	33.6
Home Improvement	12	92.3	461	88.5	1	7.7	60	11.5
Refinancing	22	91.7	1,783	94.3	2	8.3	107	5.7
Multi-Family Housing	0	0.0	0	0.0	0	0.0	0	0.0
Loan Purpose Not Applicable	0	0.0	0	0.0	0	0.0	0	0.0
Other Purpose Closed/Exempt	0	0.0	0	0.0	0	0.0	0	0.0
Other Purpose LOC	0	0.0	0	0.0	0	0.0	0	0.0
Total HMDA related	69	85.2	8,201	72.0	12	14.8	3,182	28.0
Small Business	80	87.9	6,261	84.2	11	12.1	1,171	15.8
TOTAL LOANS	149	86.6	14,462	76.9	23	13.4	4,353	23.1

As indicated in the preceding table, a substantial majority of the total number (86.6%) and dollar amount (76.9%) of residential real estate and small business loans were extended within the bank’s assessment area. While the dollar volume of residential real estate loans made outside of the bank’s assessment area was modest (28%), this percentage constituted only twelve loans. Of these twelve loans, seven were made within metropolitan statistical areas (MSAs) that have higher median housing values than the bank’s nonmetropolitan assessment area.

The remaining loan distribution analyses discussed in this performance evaluation only consider loans originated and purchased within the bank’s assessment area.

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

HCB’s borrower distribution performance for residential real estate lending is considered poor, while small business performance is considered reasonable. Based on the relative dollar volume of lending and strength of performance for each product, overall performance is considered reasonable.

Residential Real Estate Lending

The borrower distribution performance for residential real estate lending is considered poor overall. From a loan category perspective, performance is very poor for purchase, poor for refinance, and excellent for home improvement lending. On a combined basis, the poor overall conclusion for residential real estate lending considers the performance and dollar volume of lending in each category.

Distribution of 2023 and 2024 Home Mortgage Lending By Borrower Income Level													
Assessment Area: Alleghany, VA NonMSA													
Borrower Income Level	Bank And Aggregate Loans By Year												Families by Family Income %
	2023						2024						
	Bank		Agg		Bank		Agg		Bank		Agg		
	#	%	%	\$(000)	%	%	#	%	%	\$(000)	%	%	
Home Purchase Loans													
Low	1	4.8	10.6	128	3.2	5.7	0	0.0	9.3	0	0.0	4.7	20.7
Moderate	1	4.8	12.6	187	4.7	9.9	0	0.0	18.6	0	0.0	13.2	16.0
Middle	2	9.5	24.5	150	3.7	23.5	2	14.3	17.6	231	11.9	17.0	20.9
Upper	8	38.1	21.9	2,053	51.1	30.9	9	64.3	23.8	1,379	71.1	32.6	42.4
Unknown	9	42.9	30.5	1,500	37.3	29.9	3	21.4	30.7	329	17.0	32.5	0.0
Total	21	100.0	100.0	4,017	100.0	100.0	14	100.0	100.0	1,939	100.0	100.0	100.0
Refinance Loans													
Low	0	0.0	15.7	0	0.0	10.8	2	15.4	9.4	104	8.5	6.8	20.7
Moderate	1	11.1	20.0	39	7.0	17.3	0	0.0	20.0	0	0.0	15.9	16.0
Middle	4	44.4	24.3	158	28.2	24.4	0	0.0	22.4	0	0.0	21.4	20.9
Upper	3	33.3	22.9	268	47.8	31.7	8	61.5	24.7	809	66.2	20.8	42.4
Unknown	1	11.1	17.1	96	17.1	15.9	3	23.1	23.5	309	25.3	35.1	0.0
Total	9	100.0	100.0	561	100.0	100.0	13	100.0	100.0	1,221	100.0	100.0	100.0
Home Improvement Loans													
Low	1	100.0	26.3	14	100.0	25.2	1	9.1	15.6	18	3.9	4.5	20.7
Moderate	0	0.0	21.1	0	0.0	21.7	5	45.5	18.8	217	48.7	16.6	16.0
Middle	0	0.0	15.8	0	0.0	17.5	2	18.2	28.1	60	13.5	26.7	20.9
Upper	0	0.0	21.1	0	0.0	27.8	3	27.3	37.5	152	34.1	52.2	42.4
Unknown	0	0.0	15.8	0	0.0	7.9	0	0.0	0.0	0	0.0	0.0	0.0
Total	1	100.0	100.0	14	100.0	100.0	11	100.0	100.0	446	100.0	100.0	100.0
Total Home Mortgage Loans													
Low	2	6.5	12.5	142	3.1	6.9	3	7.9	9.6	122	3.4	5.0	20.7
Moderate	2	6.5	14.2	226	4.9	11.3	5	13.2	19.3	217	6.0	13.8	16.0
Middle	6	19.4	23.6	308	6.7	23.3	4	10.5	19.5	291	8.1	18.1	20.9
Upper	11	35.5	23.6	2,321	50.6	32.0	20	52.6	25.3	2,340	64.9	31.5	42.4
Unknown	10	32.3	26.0	1,596	34.8	26.6	6	15.8	26.3	638	17.7	31.5	0.0
Total	31	100.0	100.0	4,592	100.0	100.0	38	100.0	100.0	3,607	100.0	100.0	100.0

Source: 2024 FFIEC Census Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.
Multifamily loans are not included in the borrower distribution analysis.

Home Purchase

HCB's home purchase lending performance is considered very poor overall. When considering performance by year, home purchase lending is poor in 2023 and very poor in 2024. The overall conclusion considers the relative dollar volume of lending and strength of performance each year.

In 2023, HCB's percentage of home purchase lending to low- and moderate-income borrowers, 4.8% and 4.8%, respectively, lagged the aggregate lending level (10.6% and 12.6%, respectively) and the percentage of low- and moderate-income families within the assessment area (20.5% and 16%, respectively). Overall, the bank's level of performance in 2023 is considered poor.

During 2024, HCB did not originate any home purchase loans to low- or moderate-income borrowers, whereas 9.3% and 18.6% of the reported aggregate lending was made to low- and moderate-income borrowers, respectively, and 20.7% and 16% of families within the assessment area were low- and moderate-income, respectively. Overall, the bank's performance in 2024 is considered very poor

Refinance

HCB’s refinance lending performance is considered poor during 2023 and 2024.

In 2023, HCB’s percentage of refinance lending to low- and moderate-income borrowers, 0% and 11.1%, respectively, lagged the aggregate lending level (15.7% and 20%, respectively) and the percentage of low- and moderate-income families within the assessment area (20.5% and 16%, respectively). Overall, the bank’s level of performance in 2023 is considered poor, and performance during 2024 is similar.

Home Improvement

HCB’s home improvement lending performance is considered excellent during 2023 and 2024.

In 2023, HCB’s percentage of home improvement lending to low-income borrowers (100%) exceeded both the aggregate lending level (26.3%) and the percentage of low-income families within the assessment area (20.5%). In contrast, the bank’s lack of home improvement lending to moderate-income borrowers (0%) lagged both the aggregate lending level (21.1%) and the percentage of moderate-income families within the assessment area (16%). Nonetheless, the bank’s combined level of home improvement lending to low- and moderate-income borrowers is considered excellent, and performance during 2024 is similar.

Small Business Lending

The borrower distribution performance of small business lending is considered reasonable.

Distribution of 2023 Small Business Lending By Revenue Size of Businesses							
Assessment Area: Alleghany, VA NonMSA							
	Bank And Aggregate Loans						Total Businesses %
	Bank		Agg	Bank		Agg	
	#	#%	#%	\$(000)	%	%	
By Revenue							
\$1 Million or Less	19	23.8	63.6	1,607	25.7	26.9	90.5
Over \$1 Million	19	23.8		2,948	47.1		7.5
Revenue Unknown	42	52.5		1,706	27.2		2.0
Total	80	100.0		6,261	100.0		100.0
By Loan Size							
\$100,000 or Less	65	81.3	93.2	2,439	39.0	38.3	
\$100,001 - \$250,000	8	10.0	3.8	1,224	19.5	19.1	
\$250,001 - \$1 Million	7	8.8	3.0	2,598	41.5	42.6	
Total	80	100.0	100.0	6,261	100.0	100.0	
By Loan Size and Revenues \$1 Million or Less							
\$100,000 or Less	14	73.7		491	30.6		
\$100,001 - \$250,000	3	15.8		451	28.1		
\$250,001 - \$1 Million	2	10.5		665	41.4		
Total	19	100.0		1,607	100.0		
Source: 2023 FFIEC Census Data 2023 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.							

HCB’s level of lending to businesses with annual revenues of \$1 million or less (23.8%) significantly lagged the aggregate lending level (63.6%), as well as the percentage of area businesses with revenues of \$1 million or less (90.5%). However, a majority of the bank’s total small business loans (52.5%) were made to businesses with unknown revenues. As such, the distribution of lending by loan size was also considered. The bank’s percentage of small business loans in amounts of \$100,000 or less (81.3%) slightly lagged the aggregate lending level (93.2%). Further, the subset of small business loans for which revenue was not known was analyzed by loan size as shown in the following table.

Distribution of 2023 Small Business Loans with No Revenue By Loan Size				
Assessment Area: Alleghany, VA NonMSA				
	Bank			
By Loan Size	#	#%	\$(000)	\$%
\$100,000 or Less	40	95.2%	1,440	84.4%
\$100,001 - \$250,000	2	4.8%	266	15.6%
\$250,001 - \$1 Million	0	0.0%	0	0.0%
Total	42	100.0%	1,706	100.0%
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>				

Within the assessment area, 95.2% of the loans made to small businesses with unknown revenues had loan amounts of \$100,000 or less, indicating that HCB is helping to serve the credit needs of area small businesses. When considering the distribution of loans to businesses with revenues of \$1 million or less, along with the distribution of loan sizes to businesses with unknown revenues, the bank’s small business borrower distribution performance is considered reasonable.

Geographic Distribution of Loans

The bank’s geographic distribution performance is considered reasonable for both residential real estate and small business lending. As previously noted, there are no low- or moderate-income tracts within the bank’s assessment area, but there is one middle-income underserved tract. Consequently, distribution of lending in middle- and upper-income tracts was considered.

During 2023, the bank’s residential real estate and small business lending was dispersed among all census tracts in the assessment area. Additionally, ten of the 111 total residential real estate and small business loans were made within the single middle-income underserved tract (9%). In 2024, the bank did not originate any residential real estate loans in the underserved tract; however, its lending was otherwise dispersed among all census tracts. No significant unexplained gaps in lending were noted within the bank’s assessment area.

Residential Real Estate Lending

The geographic distribution performance of residential real estate lending is considered reasonable. From a loan category perspective, performance is considered reasonable for home purchase, refinance, and home improvement lending.

Distribution of 2023 and 2024 Home Mortgage Lending By Income Level of Geography													
Assessment Area: Alleghany, VA NonMSA													
Geographic Income Level	Bank And Aggregate Loans By Year												Owner Occupied Units %
	2023						2024						
	Bank		Agg		Bank		Agg		Bank		Agg		
	#	#%	#%	\$(000)	\$%	\$%	#	#%	#%	\$(000)	\$%	\$%	
Home Purchase Loans													
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Moderate	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Middle	19	90.5	86.8	3,518	87.6	84.5	12	85.7	86.7	1,446	74.6	80.7	82.8
Upper	2	9.5	13.2	500	12.4	15.5	2	14.3	13.3	494	25.5	19.3	17.2
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	
Total	21	100.0	100.0	4,017	100.0	100.0	14	100.0	100.0	1,939	100.0	100.0	100.0
Refinance Loans													
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Moderate	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Middle	8	88.9	78.6	506	90.2	72.7	9	69.2	81.2	787	64.5	76.5	82.8
Upper	1	11.1	21.4	55	9.8	27.3	4	30.8	18.8	435	35.6	23.5	17.2
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	
Total	9	100.0	100.0	561	100.0	100.0	13	100.0	100.0	1,221	100.0	100.0	100.0
Home Improvement Loans													
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Moderate	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Middle	1	100.0	89.5	14	100.0	88.2	11	100.0	90.6	447	100.0	97.1	82.8
Upper	0	0.0	10.5	0	0.0	11.8	0	0.0	9.4	0	0.0	2.9	17.2
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	
Total	1	100.0	100.0	14	100.0	100.0	11	100.0	100.0	447	100.0	100.0	100.0
Multifamily Loans													
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Moderate	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Middle	0	0.0	100.0	0	0.0	100.0	0	0.0	100.0	0	0.0	100.0	84.1
Upper	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	15.9
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	
Total	0	0.0	100.0	0	0.0	100.0	0	0.0	100.0	0	0.0	100.0	100.0
Total Home Mortgage Loans													
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Moderate	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Middle	28	90.3	85.6	4,038	87.9	83.2	32	84.2	85.7	2,679	74.3	81.1	82.8
Upper	3	9.7	14.4	555	12.1	16.8	6	15.8	14.3	928	25.7	18.9	17.2
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	
Total	31	100.0	100.0	4,592	100.0	100.0	38	100.0	100.0	3,607	100.0	100.0	100.0

Source: 2024 FFIEC Census Data

2016-2020 U.S. Census Bureau: American Community Survey

Note: Percentages may not total 100.0 percent due to rounding.

As indicated in the preceding table, HCB’s level of total residential real estate lending during 2023 in middle-income census tracts (90.3%) exceeded the aggregate lending level in such tracts (85.6%), as well as the percentage of owner-occupied housing units in the area (82.8%). Total residential real estate lending during 2024 is substantially similar.

Home Purchase

HCB’s home purchase lending performance is considered reasonable during 2023 and 2024.

In 2023, the bank’s level of lending in middle-income census tracts (90.5%) exceeded the aggregate lending level (86.8%) and percentage of owner-occupied housing units (82.8%) in such tracts. Overall, the bank’s level of performance in 2023 is considered reasonable, and performance in 2024 is substantially similar.

Refinance

The bank’s refinance lending performance is considered reasonable for both years.

In 2023, the bank’s level of lending in middle-income census tracts (88.9%) exceeded the aggregate lending level (78.6%) and the demographic proxy for demand in such tracts. Overall, the bank’s performance in 2023 is considered reasonable, and performance in 2024 is substantially similar.

Home Improvement

HCB’s home improvement lending performance is considered reasonable for both years.

In 2023, the bank’s level of lending in middle-income census tracts (100%) exceeded the aggregate lending level (89.5%) and demographic proxy in such tracts. Overall, performance in 2023 is considered reasonable, and performance in 2024 is substantially similar.

Small Business Lending

The geographic distribution performance of small business lending is considered reasonable.

Distribution of 2023 Small Business Lending By Income Level of Geography							
Assessment Area: Alleghany, VA NonMSA							
Geographic Income Level	Bank And Aggregate Loans						Total Businesses %
	Bank		Agg	Bank		Agg	
	#	%	%	\$(000)	%	%	
Low	0	0.0	0.0	0	0.0	0.0	0.0
Moderate	0	0.0	0.0	0	0.0	0.0	0.0
Middle	64	80.0	76.7	4,989	79.7	87.9	80.2
Upper	16	20.0	22.9	1,272	20.3	12.1	19.8
Unknown	0	0.0	0.0	0	0.0	0.0	0.0
Tract-Unk	0	0.0	0.4	0	0.0	0.0	
Total	80	100.0	100.0	6,261	100.0	100.0	100.0

Source: 2023 FFIEC Census Data
2023 Dun & Bradstreet Data
2016-2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

In 2023, HCB’s level of small business lending in middle-income census tracts (80%) approximated the percentage of area businesses (80.2%) and slightly exceeded the aggregate lending level (76.7%) in such tracts.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

CRA APPENDIX A

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - (A) Rates of poverty, unemployment, and population loss; or
 - (B) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.