

**PUBLIC DISCLOSURE**

August 26, 1996

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Virginia Heartland Bank

05511125

P.O. Box 7267

Fredericksburg, Virginia 22404

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

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 Virginia Heartland Bank, Fredericksburg, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of August 26, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

**INSTITUTION'S CRA RATING:** This institution is rated Outstanding.

The bank's average loan-to-deposit ratio exceeds expectations given its financial capacity and location. The institution's high level of lending within the assessment area, particularly to low- and moderate-income borrowers and small businesses, demonstrates an outstanding level of performance. Furthermore, the geographic distribution of consumer and business loans was consistent with market demographics.

The following table indicates the performance level of Virginia Heartland Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Virginia Heartland 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		X	
Response to Complaints	No complaints have been received since the prior examination.		

**DESCRIPTION OF INSTITUTION**

Virginia Heartland Bank operates one office in Fredericksburg, which serves as a bedroom community to the nearby cities of Washington, D. C. and Richmond, Virginia. The institution's previous CRA rating was satisfactory. As of June 30, 1996, the bank had \$83 million in total assets of which 66% were loans. The composition of the loan portfolio is as follows: 67% real estate secured (consumer and business), 17% consumer, and 16% commercial. Various loan and deposit products are available through the institution, including loans for small business, consumer, and residential mortgage purposes. Based on volume, commercial and motor vehicle loans were identified as primary credit products.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area, which is located within the Washington, D. C. Metropolitan Statistical Area (MSA), encompasses the City of Fredericksburg and the Counties of Stafford and Spotsylvania, Virginia. This area consists of 29 census tracts of which eight are considered low-income; none of these low-income tracts, however, are populated. The assessment area does not include any upper-income geographies. According to the 1990 census, the population for the delineated market is 137,666.

GEICO, an insurance company, and Mary Washington Hospital, as well as tourism and various service industries, provide local job opportunities. In addition, many local residents commute to the Cities of Washington, D. C. or Richmond for additional employment opportunities. Current unemployment rates are 3.5% for Spotsylvania County, 2.6% for Stafford County, and 3.4% for the City of Fredericksburg. The current jobless rate for the Commonwealth is slightly higher at 4.5%. A community contact was performed with a local public official to further assist in evaluating the bank's CRA performance. This individual indicated that both small businesses and consumers continue to benefit from the local availability of credit and the sustained economic growth in the area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**LOAN-TO-DEPOSIT RATIO**

The average loan-to-deposit ratio for the previous four quarters was 76% and exceeds expectations given the bank's financial capacity, size, and current economic conditions. The bank's level of lending is responsive to the area's loan demand. The average loan-to-deposit ratio for banks headquartered in metropolitan areas of Virginia of similar size to Virginia Heartland Bank is 70%.

**LENDING IN ASSESSMENT AREA**

Commercial and motor vehicle loans were identified as the institution's primary credit products. A sample of 41 commercial loans and 124 loans secured by motor vehicles was reviewed to determine the volume of the institution's lending within the assessment area. As illustrated below, a substantial majority of the number and dollar amounts of the sampled loans have been provided to residents of the area.

Comparison of Credit Extended Inside and Outside of Assessment Area

	<b>Inside Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Total</b>
<b>Total Number of Loans</b>	137	28	165
<b>Percentage of Total Loans</b>	83%	17%	100%
<b>Total Amount of Loans (000's)</b>	\$1,967	\$473	\$2,440
<b>Percentage of Total Amount</b>	81%	19%	100%

**LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

The following tables depict the distribution of the sampled loans extended within the assessment area by income level of the borrower and revenue size of the business.

Motor Vehicle Loans

	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Total Number of Loans</b>	64	24	11	2	101
<b>Percentage of Total Loans</b>	63%	24%	11%	2%	100%
<b>Total Amount of Loans (000's)</b>	\$422	\$168	\$45	\$20	\$656
<b>Percentage of Total Amount</b>	64%	26%	7%	3%	100%

The volume of the lending to low- and moderate-income residents (87%) substantially exceeds the proportion of such families residing in the assessment area. Low- and moderate-income families represent 46% of the population in the assessment area (20% low and 26% moderate). Moreover, a significant majority of the total dollar amount of automobile loans extended (90%) were to these borrowers. Middle- and upper-income families comprise 29% and 24% of the local community, respectively.

Commercial Loans

	Revenues ≤ \$ 1 Million	Revenues > \$ 1 Million	Total
<b>Total Number of Loans</b>	34	2	36
<b>Percentage of Total Loans</b>	94%	6%	100%
<b>Total Amount of Loans (000's)</b>	\$948	\$363	\$1,311
<b>Percentage of Total Amount</b>	72%	28%	100%

The review of the 36 commercial loans revealed that a majority were to businesses with revenues under \$1 million and demonstrates the bank's responsiveness to the needs of small businesses.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The review of loan files also included an analysis of lending among moderate- and middle-income census tracts within the institution's assessment area. As mentioned previously, there are no populated low- or upper-income geographies in the bank's market. The following charts illustrate motor vehicle and commercial loan distributions.

Distribution of Loans in Assessment Area by Income Level of Census Tract

Motor Vehicle

	Moderate- Income	Middle- Income	Total
<b>Total Number of Loans</b>	35	66	101
<b>Percentage of Total Loans</b>	35%	65%	100%
<b>Total Amount of Loans (000's)</b>	\$246	\$410	\$656
<b>Percentage of Total Amount</b>	38%	62%	100%

Commercial Loans

	Moderate- Income	Middle- Income	Total
<b>Total Number of Loans</b>	11	25	36
<b>Percentage of Total Loans</b>	31%	69%	100%
<b>Total Amount of Loans (000's)</b>	\$401	\$910	\$1,311
<b>Percentage of Total Amount</b>	31%	69%	100%

Within the market, 32% of the population resides in moderate-income and 68% in middle-income areas. The geographic distribution of lending activity reflects a reasonable dispersion throughout the assessment area and is consistent with local demographics.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Technical violations of the Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.