

PUBLIC DISCLOSURE

July 22, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Virginia Bank - Commonwealth

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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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First Virginia Bank - Commonwealth, Grafton, Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of July 22, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated Satisfactory based on the findings presented below.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Conclusion/Support

Ongoing and meaningful contact with a wide variety of individuals and organizations is an integral element of the bank's CRA program. Outreach is primarily conducted through a formal officer call program. Branch managers and other bank representatives, including commercial loan officers, are required to conduct a specified number of business development calls each month. Primary attention is directed toward local small businesses and entrepreneurs, including minority-owned businesses. Other outreach efforts include ongoing contact by bank officers and directors with local nonprofit organizations, community associations, affordable housing organizations, economic development organizations, and local, State and Federal Government officials. These outreach efforts are thoroughly documented and submitted to the CRA Officer for review and discussion with the CRA and Business Development committees.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Conclusion/Support

A formal CRA policy has been adopted by the board of directors which provides for an outreach program, a periodic analysis of the distribution of lending, a marketing plan, documentation of CRA activities, and a CRA officer and committee. The CRA committee, chaired by the CRA officer, meets monthly. This committee is responsible for the development of goals and objectives and the oversight and review of CRA activities and outreach efforts. Branch managers attend CRA committee meetings on a revolving basis to present current activities within their respective branch markets to its members. The board of directors is kept informed of CRA activities through periodic reports from the CRA committee. Furthermore, the board has adopted an expanded CRA Statement that includes a description of efforts to ascertain credit needs and various CRA related activities conducted during the year.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Conclusion/Support

First Virginia Bank - Commonwealth advertises loan and deposit products in a variety of media including local newspapers, radio, and television stations. Direct mail and telephone campaigns have also been utilized to increase community awareness and product knowledge. Federal Housing Authority (FHA) Title I Home Improvement loans have been promoted in specific solicitation campaigns. Furthermore, brochures explaining bank products and services are available in several languages including Vietnamese, Spanish, Korean, and Arabic. These marketing efforts appear adequate.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Conclusion/Support

The CRA Statement, ratified by the Board of Directors on March 21, 1996, identifies a full range of credit services including consumer, residential mortgage, residential construction, home improvement, commercial, small business, community development, and agricultural loans. These types of credit appear responsive to local credit needs and all types have been extended.

The bank is an active retail lender. From January 1995 through May 1996, the institution originated 1,644 direct instalment loans totaling \$24 million for a variety of consumer purposes. Additionally, through relationships established with local automobile dealerships, 1,278 indirect instalment loans for \$21.5 million were extended. These indirect loans primarily financed automobile purchases. During this same period, the bank made 21 mobile home loans for \$466,948 and 345 small dollar loans for amounts of \$2,000 or less. Mobile home and small dollar loans typically serve the credit needs of low- and moderate-income individuals.

Real estate secured loans are also available. During 1995, the bank extended 16 home purchase loans totaling \$997,000 and 99 home refinance loans for \$4.9 million. Home improvement and residential construction loans are also routinely provided. During 1995, 123 home improvement loans for \$1.3 million were made. From January 1995 through May 1996, seven home construction loans totaling \$335,000 were originated.

Conclusion/Support--contd.

Long-term conventional mortgage loans are provided through First Virginia Mortgage Company (FVMC), a bank affiliate. During 1995, FVMC originated seven home purchase loans for \$787,000 and nine home refinance loans totaling \$670,000 to borrowers residing within the portion of the community located in the Norfolk and Richmond Metropolitan Statistical Areas (MSA). From January 1995, through March 1996, FVMC extended 45 mortgage loans totaling \$4.1 million to residents of the bank's local community.

Although the bank is primarily a consumer lender, commercial and small business loans are also offered. During the period from January 1995, through May 1996, 73 commercial loans for \$8.9 million were provided to 60 local companies resulting in the creation of 40 new jobs. In 1995, 113 direct instalment loans to small businesses for \$2.9 million were extended. Also, since the previous evaluation, six agricultural loans for \$117,400 have been funded.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Conclusion/Support

Government sponsored mortgage loans are available through FVMC and include insured or guaranteed loans through the Federal Housing Administration (FHA), Veterans Administration (VA), and Virginia Housing Development Authority (VHDA). Since the previous evaluation, FVMC has originated two FHA loans for \$122,934 and two VA loans for \$103,938 to residents within the bank's local community.

Secured and unsecured home improvement loans guaranteed through the FHA Title I program are also available. This program has less stringent underwriting criteria and requires lower down payments than traditional financing. Since the previous evaluation, 21 FHA Title I home improvement loans for \$274,082 have been originated.

First Virginia Bank - Commonwealth is also an approved Small Business Administration (SBA) lender. Since the previous evaluation, two SBA loans for \$552,000 have been extended.

In addition, Government guaranteed student loans are offered through the Stafford, Stafford Plus, and Edvantage programs. Since the previous evaluation, 61 student loans for \$165,909 have been provided.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

Conclusion/Support

The local community has been delineated as the Counties of Gloucester, James City, Lancaster, Mathews, Middlesex, Surry, York, the Cities of Williamsburg, Poquoson, Hampton, and Newport News and portions of New Kent, King William, and King & Queen Counties. The Cities of Poquoson, Hampton, and Newport News were included in the delineation as a result of the bank's acquisition of six branches from its affiliate, First Virginia Bank of Tidewater, on March 15, 1996. This delineation meets the purpose of the regulation and does not exclude low- and moderate-income neighborhoods.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Conclusion/Support

The geographic distribution of accepted and denied loan applications is documented according to zip codes and/or census tracts/block numbering areas. This information is reviewed annually by the board of directors and the CRA committee to assess the reasonableness of the delineated community. A review of the bank's data indicates that 89% (1,493 of 1,669) of direct instalment loans made from January 1, 1996, through June 30, 1996, were from within the delineated community.

Lending performance in the low- and moderate-income areas throughout the entire delineated community is documented according to the income of the area (those with a median income below 80% of the median for the MSA or county, as appropriate). Before the acquisition of the six branches, as previously mentioned, the institution's local community was primarily rural and included only small portions of the Richmond and Norfolk MSAs. The portion of the local community within these MSAs includes one low- and moderate-income census tract. According to the data, 419 direct instalment loans totaling \$3.1 million were extended to individuals residing in low- and moderate-income tracts during 1995.

Since the acquisition of six branches in the Norfolk MSA, the bank has documented the lending activity for that area. A review of the data revealed that 12% of loans made in the Cities of Hampton and Newport News during the period January 1, 1996, through June 30, 1996, were to residents of low- and moderate-income census tracts. Twenty-two census tracts within the Cities of Hampton and Newport News are considered low- and moderate-income tracts.

Conclusion/Support--contd.

An analysis of 1995 Home Mortgage Disclosure Act (HMDA) information concerning the geographic distribution of lending was not conducted since the majority of lending was outside those portions of the MSAs within the delineated community for 1995. Furthermore these areas contained only one low -and moderate-income tract and less than 2% of the total population resided in this census tract.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Conclusion/Support

The institution operates 18 offices that are accessible to all segments of its delineated community. The bank has adopted a formal branch closing policy which addresses procedures outlined by the Federal Deposit Insurance Corporation Improvement Act of 1991. The policy encompasses all elements considered responsive to the bank's CRA obligations.

As previously mentioned, six offices were acquired from an affiliate, First Virginia Bank of Tidewater, on March 15, 1996. In addition, a branch facility was recently opened in the Patrick Henry Mall located in Newport News. No offices have been closed since the previous evaluation.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Conclusion/Support

Adequate policies and procedures supporting nondiscrimination in all lending and credit activities have been developed. Applications are solicited from all segments of the bank's delineated community, including low- and moderate-income neighborhoods. Fair lending efforts undertaken by the bank include training for all employees regarding antidiscrimination lending laws and regulations. A second review for all denied mortgage applications is conducted to insure the equal application of credit standards.

An analysis of the 1995 Home Mortgage Disclosure (HMDA) information for the bank within the MSA portions of its delineated community, as defined for 1995, regarding race was conducted. The review of data revealed that 17.8% (23 of 129) of the applications received by the bank, where race was gathered, were from minority applicants. Of these applications, 13.4% were extended to minority borrowers. The portion of the MSA included in the bank's community has a 18.4% minority population.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Conclusion/Support

A review was made of credit policies and procedures, forms, 37 accepted and 23 denied loan applications for consumer and business credit; interviews with two loan officers were conducted during the examination to determine compliance with the fair housing and fair lending laws and regulations. No discriminatory acts or practices were identified, and the bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.

A review of the bank's Home Mortgage Disclosure Act (HMDA) information concerning mortgage applicants within the delineated portion of the MSA revealed that denial rates for minorities exceeded those for white applicants. Specifically, minorities were denied credit at a rate of 2.4 to 1 during 1995. Files for specific denied minority applicants corresponding to the bank's HMDA Loan Application register were compared with the files of accepted white applicants. Analysis of the matched pairs evidenced consistent application of credit standards among all applicants.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Conclusion/Support

Through its outreach efforts, management is aware of community development opportunities throughout its delineated community. Participation in such projects has included direct lending, donations, investments, financial services, and technical assistance.

The bank continues to rely on direct and indirect lending to aid community development as evidenced by a 72% loan-to-deposit ratio. Total loans, as of June 30, 1996, represented 65% of total assets. Direct lending activities primarily involve loans to small businesses, developers, individuals, and local government.

Although the institution is primarily a retail lender, small business and commercial loans contributing to economic growth are extended. Approximately \$17 million in such financing was outstanding as of June 30, 1996. For the period from January 1995 through May 1996, the institution's commercial loan department extended 73 loans to 60 businesses for \$8.9 million that directly contributed to the creation of 40 new jobs. Financing has also been provided to local governments. Loans extended to such entities include:

Conclusion/Support--contd.

\$2,000,000 - line of credit to Lancaster County for interim operating funds.

\$350,000 - line of credit to the Town of Kilmarnock to finance road construction.

\$450,000 - loan to Surry County to purchase fire trucks.

\$400,000 - loan to City of Poquoson for capital improvements to local high school.

In addition, the institution recently approved a \$416,000 lease/purchase loan to the York County School Board for new school buses. Also, the bank has invested \$445,000 in local bond issues from York County and the Town of West Point and has purchased 130 Virginia Housing and Development Authority bonds totaling \$650,000.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Conclusion/Support

First Virginia Bank - Commonwealth operates 18 offices throughout its delineated community which is situated in the southeastern portion of the Commonwealth primarily including an area known as Hampton Roads. This community encompasses an area ranging from the southeastern portion of New Kent County, eastward along the Hampton Roads Peninsula to the City of Hampton, Virginia and northward from Surry County to Lancaster County, Virginia. Portions of the community including the Cities of Williamsburg, Poquoson, Hampton, and Newport News and the Counties of Gloucester, James City, Mathews, and York, are within the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area (MSA). The delineated community is diverse and includes rural as well as metropolitan areas. The population of the area is approximately 495,474 residents. Unemployment rates vary widely throughout the region ranging from a low of 2.7% in Mathews County to a high of 11% in Surry County. These figures represent seasonal fluctuations and the diverse economic characteristics present within the community. Major industries in the community range from agriculture and seafood production in the rural areas to shipbuilding, automobile fabrication, and many other manufacturing concerns located in the metropolitan Hampton Roads area. Also, Virginia Power's nuclear power plant in Surry County is a major employer.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Conclusion/Support

In addition to the activities previously discussed, contributions and technical assistance have been provided to a variety of local nonprofit organizations. During 1995, contributions totaling \$18,631 were made to such entities. In addition, bank officers and employees have participated in a variety of civic, fraternal, and nonprofit organizations, some of which are involved in economic development.

First Virginia Bank - Commonwealth offers several basic banking deposit accounts designed to provide low-cost checking and savings opportunities to low- and moderate-income individuals.