

PUBLIC DISCLOSURE

March 25, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Horizon Bank of Virginia

05510942

P. O. Box 3700

Merrifield, Virginia 22116

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 The Horizon Bank of Virginia prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of March 25, 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 Satisfactory.

The bank's loan to deposit ratio and lending to residents within its assessment area are considered adequate given its financial capacity and location. The institution's geographic distribution of loans does not meet the standards for satisfactory performance due to limited lending activity in low-, moderate- and middle-income census tracts. Nonetheless, the loans sampled during the examination showed a reasonable distribution of loans to borrowers of different incomes and to businesses of different sizes.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE HORIZON BANK OF VIRGINIA</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 were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The Horizon Bank of Virginia operates two offices located in Fairfax County, Virginia. As of December 31, 1995, the institution had \$105 million in total assets of which 59% were credit extensions. Various loan and deposit products are available including loans for residential real estate, small business, commercial and consumer purposes. The bank's primary lending focus is business credit with construction and development, multifamily residential, nonfarm nonresidential and commercial loans comprising the majority (57%) of the loan portfolio.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area, located in the Washington, D.C.-Maryland-Virginia Metropolitan Statistical Area (MSA), includes the entire County and City of Fairfax, Virginia. The populations of Fairfax County and Fairfax City are 818,584 and 19,622, respectively. Twenty-two percent of local residents are minorities, and approximately 8% of the population resides in low- or moderate-income census tracts. Area employment opportunities are primarily provided by the Federal Government as well as the retail trade, construction, and service industries. Local economic conditions appear favorable with the Fairfax County unemployment rate of 2.5% remaining below the Commonwealth jobless rate of 4.1%. A community contact with a local government official was recently performed to further assist in evaluating the bank's CRA performance. Information gathered from the contact also revealed that local economic conditions are favorable.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The current economy of the assessment suggest a high level of demand for consumer and small business lending. The bank's average loan-to-deposit ratio of 70% for the previous five quarters is considered reasonable in relation to the institution's financial capacity, size and current local economic conditions.

LENDING IN ASSESSMENT AREA

A review of 89 business and 50 consumer loans was conducted to determine the volume of lending within the assessment area. The consumer loan sample consisted of 24 loans secured by motor vehicles and 26 unsecured loans. A majority of the number and dollar amounts of the loans have been provided to residents of the assessment area, as illustrated below.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	105	34	139
Percentage of Total Loans	76%	24%	100%
Total Amount of Loans (000's)	\$7,864	\$2,498	\$10,362
Percentage of Total Amount	76%	24%	100%

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

The following chart illustrates the distribution of consumer loans extended within the assessment area by the income level of the borrower. Low- and moderate-income families comprise 9.7% (low) and 13.5% (moderate) of the families in the assessment area.

Distribution of Loans by Income Level of Borrower

CONSUMER LOANS

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	6	5	17	28
Percentage of Total Loans	0%	21%	18%	61%	100%
Total Amount of Loans (000's)	0	49	29	224	302
Percentage of Total Loans	0%	16%	10%	74%	100%

Although no loans in the sample were made to low-income borrowers, a significant percentage of loans (21%) has been provided to those with moderate-incomes. The proportion of lending to middle-income borrowers (18%) was only slightly below the percentage of middle-income families living in the assessment area (23.8%). Approximately 60% of the assessment area is comprised of upper-income families.

A review of the bank's business lending activity was also conducted. As depicted in the following table, nearly half of the loans sampled were extended to businesses with revenues less than or equal to \$1 million.

Distribution of Loans by Size of Business

	Revenues ≤ \$ 1 Million	Revenues > \$ 1 Million	Total
Total Number of Loans	36	41	77
Percentage of Total Loans	47%	53%	100%
Total Amount of Loans (000's)	\$2,797	\$4,764	7,561
Percentage of Total Amount	37%	63%	100%

The institution also offers funding to small businesses through the Small Business Administration guarantee loan program. Given its location, the bank's level of lending to small businesses appears reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files included an analysis of lending throughout the assessment area. The map of Fairfax County, included as an Appendix, depicts the county's census tracts according to income level. Some tracts designated on the map as "missing" or "excluded" data have no population and were not considered in the

analysis.

A majority of census tracts are middle-and upper-income. Middle-income tracts contain 44% of the community's population and upper-income tracts, 49%. The assessment area has only one populated low-income tract. This tract, as well as the adjacent moderate-income tract to the south, is Fort Belvoir, a military installation. This military facility affords little opportunity for lending and the 11 other moderate-income tracts within the market contain only 7.6% of the assessment area population.

The following table illustrates total business and consumer loan penetration throughout the market.

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

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	2	0	0	103	105
Percentage of Total Loans	2%	0%	0%	98%	100%
Total Amount of Loans (000's)	\$100	0	0	\$7764	\$7864
Percentage of Total Loans	1%	0	0	99%	100%

Distribution of bank lending was found to be disproportionately within upper-income census tracts. Although two loans were extended in low-income tracts, there was no lending activity in moderate- or middle- income tracts.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of the fair housing and fair lending laws and regulations. A violation involving the technical aspects of the Home Mortgage Disclosure Act's Regulation C was noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.

Regression Program Usage Report

(This form should be filled out for each examination conducted involving a HMDA reporter.)

Institution Name: The Horizon Bank of Virginia

City, ST: Merrifield, VA

Exam Date: 3/35/96

Number of HMDA LAR records: 14

Year(s) of data considered: 1994

	FHA, VA, & FmHA HOME Purchase		Conventional Home Purchase		Refinancings		Home Improvement	
	Year	Year	Year	Year	Year	Year	Year	Year
White Approvals	0		0		8		5	
White Denials	0		0		0		0	
Minority Approvals	0		0		0		0	
Minority Denials	0		0		0		0	

Was Step 1 of regression program run? N

if "N", why not? Insufficient number of minority denials

What grouping(s) of data (i.e., loan type, location, year(s), etc.) were used?

MIN Pr > Chi Square Value

- (1) _____
- (2) _____
- (3) _____
- (4) _____
- (5) _____
- (6) _____

Results from Regression Step 2

(Fill this page out for each grouping on which step 2 was run.)

Standard Variables which were not needed for Step 2:

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Judgmental Variables which were collected for Step 2:

_____	Cash Available for Closing	_____	Special Loan Program
_____	Refi from Same Lender	_____	Cash Out vs No Cash Out
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Value of MIN Pr > Chi-Square: _____

Number of Minority Rejections: _____

Number of "Dominant Pairs": _____

Explain which files pair analysis used: _____

What additional factors explained away pairs? _____

Were pairs of loan files given to bank for explanation? Y N

Examiner hours spent specifically on regression: _____