

**PUBLIC DISCLOSURE**

April 22, 1996

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Rockingham Heritage Bank

05511343

P. O. Box 352

Harrisonburg, VA 22801

**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 Rockingham Heritage Bank, Harrisonburg, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of April 22, 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 loan-to-deposit ratio is considered more than reasonable given its financial capacity and location. Furthermore, the institution's high level of lending within the assessment area, particularly to low- and moderate-income borrowers, demonstrates an overall outstanding level of performance. The distribution of lending by the income level of geographies in the assessment area appears reasonable in relation to area demographics.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	ROCKINGHAM HERITAGE BANK 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**

Rockingham Heritage Bank operates three offices within the City of Harrisonburg, Virginia, which is situated in the Shenandoah Valley. As of December 31, 1995, the institution had \$51 million in total assets of which 70% were loans. Management's primary credit focus is small business lending with construction and development, multifamily residential, nonfarm nonresidential, and commercial loans comprising the majority (64%) of the loan portfolio. Various other loan and deposit products are also available, including loans for residential real estate and consumer purposes.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area includes the County of Rockingham and the City of Harrisonburg, Virginia. This area has a population of 88,189 of which 5.4% are minorities. Approximately 27% of area families are considered to have low- or moderate-incomes. One hundred percent of the market population, however, resides in middle- or upper-income census tracts.

Local economic conditions appear favorable with unemployment rates of 2.7% and 2% for Rockingham County and Harrisonburg City, respectively. The area serves as a center for local economic activity with numerous workers commuting from surrounding counties. The largest employers in the area are Wampler-Longacre (poultry), Rocco (poultry), Purdue (poultry), Tysons (poultry), RR Donnely (book publishing), Coors (distribution), and Merck (pharmaceutical). The area is also home to several colleges, including James Madison University (JMU), Eastern Mennonite College, and Bridgewater College, that provide additional job opportunities for local residents. Additional job opportunities in the area include agriculture, manufacturing, retail trade, educational services, construction, and health services. A community contact with a local public official was performed during the examination to further assist in evaluating the bank's CRA performance. Information gathered from the contact indicated that local economic conditions are favorable and area lenders appear responsive to community credit needs.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **LOAN-TO-DEPOSIT RATIO**

The average loan-to-deposit ratio of 81% for the previous five quarters is considered more than reasonable given the institution's size, financial condition, location, and current economic conditions. The bank's level of lending is responsive to the area's high level of loan demand. The average loan-to-deposit ratio for banks headquartered in nonmetropolitan areas of Virginia, and of similar size to Rockingham Heritage Bank, is 69%.

**LENDING IN ASSESSMENT AREA**

A review of 62 business loans and 52 consumer automobile loans was conducted to determine the volume of lending within the assessment area. A substantial majority of the number and dollar amount of the sampled loans have been provided to residents of the assessment area, as illustrated below.

**Comparison of Credit Extended Inside and Outside of the Assessment Area**

Total Loans

	<b>Inside Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Total</b>
<b>Total Number of Loans</b>	99	15	114
<b>Percentage of Total Loans</b>	87%	13%	100%
<b>Total Amount of Loans (000's)</b>	\$3,482	\$920	\$4,402
<b>Percentage of Total Amount</b>	79%	21%	100%

The results of the review of sampled loans is consistent with the bank's own findings. Bank management conducted an analysis of the geographic distribution of lending that concluded that 87% of the number and 80% of the dollar amount of all loans originated since January 1, 1995, were to borrowers living within the institution's assessment area.

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

The following chart illustrates the distribution of consumer automobile loans extended within the assessment area by the income level of the borrower. Low-income and moderate-income families comprise 12.5% and 15%, respectively, of the families in the assessment area. In comparison, approximately 49% of the market is comprised of upper-income families.

**Distribution of Loans by Income Level of Borrower**

Consumer Loans

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
<b>Total Number of Loans</b>	12	9	14	12	47
<b>Percentage of Total Loans</b>	26%	19%	30%	26%	100%
<b>Total Amount of Loans (000's)</b>	\$64	\$89	\$126	\$135	\$414
<b>Percentage of Total Amount</b>	15%	22%	31%	33%	100%

A significant percentage of the institution's lending within the area has been to borrowers of low- or moderate-incomes. This volume of lending (45%) was significantly higher than the percentage of such families in the assessment area and suggests the institution has been especially successful in meeting the needs of this segment of its market.

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

**Distribution of Loans by Size of Business**

	Revenues ≤ \$ 1 Million	Revenues > \$ 1 Million	Total
<b>Total Number of Loans</b>	39	13	52
<b>Percentage of Total Loans</b>	75%	25%	100%
<b>Total Amount of Loans (000's)</b>	\$1,858	\$1,210	\$3,068
<b>Percentage of Total Amount</b>	61%	39%	100%

Given its location and local economic conditions, 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 among the various census tracts located within the assessment area. Although the market includes two low-income census tracts, neither is populated. As previously mentioned, the entire area population resides in middle- (46%) or upper-income (54%) census tracts. The following tables illustrate business and consumer loan penetration throughout the market.

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

Commercial Loans

	Middle- Income	Upper- Income	Total
Total Number of Loans	20	32	52
Percentage of Total Loans	38%	62%	100%
Total Amount of Loans (000's)	\$1,174	\$1,894	\$3,068
Percentage of Total Amount	38%	62%	100%

Consumer Loans

	Middle- Income	Upper- Income	Total
Total Number of Loans	15	32	47
Percentage of Total Loans	32%	68%	100%
Total Amount of Loans (000's)	\$120	\$294	\$414
Percentage of Total Amount	29%	71%	100%

The bank's lending penetration in middle- and upper-income census tracts closely corresponds to the percentage of residents in such tracts.

**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. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.