

PUBLIC DISCLOSURE

December 9, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Lancaster
05511470
100 Main Street
Kilmarnock, Virginia

**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 Bank of Lancaster, Kilmarnock, Virginia, made by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of December 9, 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 appears reasonable in relation to demand for credit in the assessment area. A substantial majority of loans sampled during the examination were extended to borrowers residing within the local community. In addition, the bank demonstrated a satisfactory level of lending activity to low- and moderate-income borrowers. While the bank's assessment area contains no low- or moderate-income block numbering areas (BNAs), the penetration of loans throughout middle- and upper-income geographies appears reasonable in relation to area demographics.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Bank of Lancaster</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

Bank of Lancaster operates three offices located in Lancaster County, Virginia. As of September 30, 1996, the bank had assets of approximately \$157 million, of which 61% were credit extensions. Various loan and deposit products are available through the institution, including loans for residential mortgage, commercial, consumer, and agricultural purposes. The loan portfolio as of June 30, 1996, included the following: 85% real estate secured (business and consumer), 11% consumer, and 4% commercial. Based on the number of loans made during the previous year, consumer home purchases and unsecured loans were identified as the principal credit products offered by the bank. The Bank of Lancaster received an outstanding CRA rating during its previous evaluation.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area, which is situated between the Potomac and Rappahannock Rivers approximately 80 miles east of the City of Richmond, encompasses all of Lancaster and Middlesex Counties, Virginia, as well as BNAs 9902 and 9903 in Northumberland County. The assessment area contains eight middle-income and one upper-income BNAs. There are no low- or moderate-income geographies located within the community.

Overall, the assessment area is predominately rural and has a population of 26,666 according to 1990 census data. The local economy is supported by agriculture, commercial fishing/processing, and tourism. Due to the seasonal nature of these industries, employment rates vary widely during the year. Residents also commute to the nearby Cities of Richmond, Hampton, Newport News, and Washington, D. C. for employment. As of October 1996, the unemployment rates for Lancaster, Middlesex, and Northumberland Counties were 7.4%, 3.2%, and 5.4%, respectively. In recent years, the area has become attractive as a retirement community which has contributed to the growth of additional retail businesses, construction projects, and residential real estate. In Lancaster County alone, 26% of the population is age 65 and over, and the median age is 45. The migration has put upward pressure on the cost of real estate in the area.

The following table provides demographic information about the bank's assessment area regarding income level of families and the percentage of population living in BNAs of varying income levels.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	19%	16%	21%	44%	100%
Percentage of Population Residing in BNAs by Income Level	0%	0%	85%	15%	100%

A community contact was performed with a representative from a local consumer organization to further assist in evaluating the bank's CRA performance. According to the contact, the area has experienced significant growth in its senior citizen population in recent years. In addition, the Northern Neck area is experiencing a shortage of affordable housing options.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

The average loan-to-deposit ratio for the previous five quarters is 67% and is considered reasonable given the institution's financial capacity, size, and current local economic conditions. This level of lending is considered responsive to the area's loan demand. The average loan-to-deposit ratio for banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to the Bank of Lancaster is 70%.

LENDING IN ASSESSMENT AREA

To determine the institution's volume of lending within its assessment area, a sample of 100 recently extended consumer loans was reviewed. This sample included 60 consumer unsecured loans and 40 home purchase mortgage loans since these two categories represent the largest volume of recent originations. As illustrated in the chart 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

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	91	9	100
Percentage of Total Loans	91%	9%	100%
Total Amount of Loans (000's)	\$4,542	\$563	\$5,105
Percentage of Total Amount	89%	11%	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES

Information about applicant income was gathered for the sampled loans originated within the assessment area. The following charts illustrate the distribution of unsecured and home purchase loans extended to borrowers of different income levels.

Distribution of Loans by Income Level of Borrower

Unsecured Instalment Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	19	14	12	12	57
Percentage of Total Loans	33%	25%	21%	21%	100%
Total Amount of Loans (000's)	\$37	\$28	\$31	\$49	\$145
Percentage of Total Amount	26%	19%	21%	34%	100%

When compared to the market distribution of families by income, the bank's volume of consumer unsecured lending to low- and moderate-income individuals (58%) substantially exceeds the percentage of such families residing within the assessment area (35%).

Distribution of Loans by Income Level of Borrower

Home Purchase Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	4	10	20	34
Percentage of Total Loans	0%	12%	29%	59%	100%
Total Amount of Loans (000's)	\$0	\$188	\$863	\$3,346	\$4,397
Percentage of Total Amount	0%	4%	20%	76%	100%

The review of the sampled home purchase mortgage loans indicated that the bank's volume of lending to low- and moderate-income individuals (12%) is significantly less than the population representation (35%). While no home purchase loans were extended to low-income individuals, the high cost of housing in the area has made it difficult for such residents to purchase or own a home. According to 1990 census data, 85% of the housing units in the community were valued in excess of \$41,000 and the median housing value was \$84,145. Based on the 1996 income figure, low-income families in nonmetropolitan Virginia would earn less than \$16,800 per year.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among middle- and upper-income BNAs within the institution's assessment area. As mentioned previously, there are no low- or moderate-income geographies located in the bank's market. The following charts illustrate the distribution of the sampled loans according to income level of the BNA.

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

Unsecured Instalment Loans

	Middle- Income	Upper- Income	Total
Total Number of Loans	37	20	57
Percentage of Total Loans	65%	35%	100%
Total Amount of Loans (000's)	\$84	\$61	\$145
Percentage of Total Amount	58%	42%	100%

Home Purchase Loans

	Middle- Income	Upper- Income	Total
Total Number of Loans	24	10	34
Percentage of Total Loans	71%	29%	100%
Total Amount of Loans (000's)	\$3,051	\$1,346	\$4,397
Percentage of Total Amount	69%	31%	100%

Within the assessment area, 85% of the population resides in middle-income geographies and 15% in upper-income neighborhoods. As evidenced above, the sample of 57 consumer unsecured loans and 34 home purchase loans revealed that the bank has maintained adequate penetration within the respective BNAs as compared to market 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. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.