

PUBLIC DISCLOSURE

March 25, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Bank

05511637

P. O. Box 7207

McLean, Virginia 22106-7207

**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 Heritage Bank 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 loans sampled during the examination revealed a reasonable distribution of lending to borrowers of different incomes and businesses of different sizes. While all the loans sampled were provided to residents and businesses in upper-income tracts, this was not considered unreasonable given the institution's location and market strategy.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>HERITAGE 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 were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Heritage Bank has one office located within Fairfax County, Virginia which is reasonably accessible to all census tracts within the assessment area. As of September 30, 1995, the bank had \$42.7 million in assets of which 60% were loan receivables. A variety of credit services is offered including commercial, small business, residential, and consumer loans. The main focus of the bank continues to be commercial lending which comprises approximately 51% of the loan portfolio. Additionally, real estate loans constitute 14% and consumer credit represents 3% of the portfolio.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes the following census tracts in Fairfax County:

- 4601
- 4603 to 4605
- 4608
- 4609
- 4701 to 4713
- 4801 to 4805
- 4808
- 4819 to 4822

The assessment area includes all of the City of McLean, Virginia, and surrounding portions of Fairfax County which are part of the Washington, D. C.-Maryland-Virginia Metropolitan Statistical Area (MSA). The population for the delineated market is 134,518. Within the market, 29% and 71% of the population, respectively, reside in middle- and upper-income census tracts. The local economy is diverse and affords employment opportunities with the Federal Government, military, light manufacturing, and retail-related businesses. Many residents commute to Washington, D. C. for jobs, while others are employed by area service and technology firms that receive substantial contract work from the Federal Government. Unemployment in Fairfax County remains low compared to national figures and is currently 2.5%. McLean, Virginia, is primarily an affluent area, and Fairfax County has one of the highest per capita income levels in the nation. Information from a local public official was used to assist in evaluating the institution's CRA performance in the assessment area. Information gathered from the contact revealed that local economic conditions are considered good.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The current economy of the assessment area suggests strong demand for consumer and small business lending. The average loan-to-deposit ratio of 68% for the previous six quarters is considered reasonable in relation to the institution's financial capacity, size, and current economic conditions.

LENDING IN ASSESSMENT AREA

A sample of 43 business and 45 consumer loans was reviewed to determine the volume of lending within the assessment area. Lending inside the assessment area represented a majority of the number and dollar amounts of the loans in the sample, as illustrated in the chart below.

Comparison of Credit Extended Inside and Outside of Assessment Area

COMMERCIAL AND CONSUMER LOANS

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	50	38	88
Percentage of Total Loans	57%	43%	100%
Total Amount of Loans (000's)	\$1,850	\$1,529	\$3,379
Percentage of Total Amount	55%	45%	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Of loans within the assessment area, 27 commercial and 20 consumer loan files contained information about revenue or income. The following tables depict lending to businesses of different sizes and applicants of different income levels.

Distribution of Loans by Size of Business

	Revenues ≤ \$ 1 Million	Revenues > \$ 1 Million	Total
Total Number of Loans	19	8	27
Percentage of Total Loans	70%	30%	100%
Total Amount of Loans (000's)	\$623	\$900	\$1,523
Percentage of Total Amount	41%	59%	100%

Distribution of Loans by Income Level of Borrower

Consumer Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	1	4	1	14	20
Percentage of Total Loans	5%	20%	5%	70%	100%
Total Amount of Loans (000's)	\$3	\$14	\$1	\$317	\$336
Percentage of Total Loans	1%	4%	0%	95%	100%

The review of commercial lending revealed that the majority of these loans was to businesses with revenues under \$1 million dollars and demonstrates the bank's responsiveness to the needs of small businesses. The distribution of the number of consumer loans to borrowers at all income levels is generally proportional to the percentage of families in each income range. Within the assessment area, a substantial portion (83%) of families are considered middle- and upper-income. Seventy-five percent of loans were to middle- and upper-income borrowers, but the concentration of the dollar amount of loans to upper-income borrowers is somewhat higher than the 63% of such families in the market. Given the institution's size, location, and market strategy that focuses on commercial lending, the distribution of lending is reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among census tracts within the assessment area. The following table depicts the geographic distribution of the bank's lending throughout the market by income-level of the tracts.

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

Commercial and Consumer Loans

	Middle- Income	Upper-Income	Total
Total Number of Loans	0	50	50
Percentage of Total Loans	0%	100%	100%
Total Amount of Loans (000's)	\$0	\$1,850	\$1,850
Percentage of Total Amount	0%	100%	100%

No census tracts in the assessment area are considered low- and moderate-income. While no loans were made in middle-income tracts, the immediate vicinity around the bank's only office is primarily commercial and is surrounded by upper-income tracts. Additionally, only 29% of the assessment area population resides in middle-income 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.