

**PUBLIC DISCLOSURE**

December 2, 1996

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Potomac Valley Bank

05541140

4 North Main Street

Petersburg, West Virginia 26847-1079

**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 institutions 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 institutions record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Potomac Valley Bank, Petersburg, West Virginia, prepared by The Federal Reserve Bank of Richmond, the institutions supervisory agency, as of December 2, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

**INSTITUTIONS 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 provided to residents of the local community. Furthermore, the banks lending performance to low- and moderate-income borrowers significantly exceeds the proportion of such families residing in the market area. The assessment area consists solely of middle-income census tracts and block numbering areas (BNAs); therefore, the distribution of lending by income level of geographies was not considered in evaluating the institutions CRA performance.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Potomac Valley Bank</u> PERFORMANCE LEVELS		
		Exceeds Standards for Satisfactory Performance	Meets 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	Analysis was not meaningful.		
Response to Complaints	No complaints have been received since the prior examination.		

**DESCRIPTION OF INSTITUTION**

Potomac Valley Bank operates two offices located in Grant County, West Virginia. As of September 30, 1996, the institution had total assets of \$95 million, of which 53% were loans. Various deposit and credit products are available through the institution including loans for residential mortgage, commercial, consumer, and agricultural purposes. A majority of the bank's loan portfolio (51%) consists of loans secured by one- to four-family residential properties (consumer and business purpose). Approximately 26% of the bank's loan portfolio consists of consumer lending and 21% of commercial and agricultural lending. Based on volume, automobile loans and consumer unsecured loans have been identified as the bank's primary credit products. The institution's previous CRA rating was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The institution's assessment area includes Grant County, West Virginia, as well as two BNAs (9702 and 9703) in Hardy County, West Virginia. According to the 1990 census, the population for the assessment area is 18,097. All five BNAs located within the bank's market area are considered middle-income. The following table provides assessment area demographics by the income level of families. As illustrated by this chart, a majority of families residing in the assessment area (66%) are middle- and upper-income.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Area Families by Income Level	17%	17%	20%	46%	100%

The local economy relies heavily on the timber and poultry industries with additional employment opportunities provided by coal mining and agriculture. The local tourism industry also provides jobs through area ski resorts, national parks, and other recreational sites. Unemployment rates for Grant and Hardy Counties are 6.7% and 2.4%, respectively. The current jobless rate for the State of West Virginia is 6.5%.

A community contact with a representative from the local trade association was performed during the examination to further assist in evaluating the bank's CRA performance. The contact anticipates a migration of new industry to the region upon the completion of the Allegheny Highway, thus making the area more accessible.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**LOAN-TO-DEPOSIT RATIO**

The average loan-to-deposit ratio for the previous six quarters is 60%. Given the institution's size, financial capacity, and current local economic conditions, this ratio is indicative of a general responsiveness to area loan demand. Since June 1995, total loans have grown 11.2%, and total deposits have increased by 1.4%. In addition, the bank's level of lending is considered reasonable when compared to similarly situated financial institutions. As of June 30, 1996, the average loan-to-deposit ratio for banks headquartered in nonmetropolitan areas of West Virginia and of similar size to Potomac Valley Bank was 66%.

**LENDING IN ASSESSMENT AREA**

A sample of 50 consumer loans secured by motor vehicles and 41 consumer unsecured loans was reviewed to determine the volume of the institution's lending within the assessment area. As illustrated by the following chart, a substantial majority of the number and dollar amounts of the sampled loans have been provided to borrowers residing within the assessment area.

Comparison of Credit Extended Inside and Outside of Assessment Area

	<b>Inside Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Total</b>
<b>Total Number of Loans</b>	77	14	91
<b>Percentage of Total Loans</b>	85%	15%	100%
<b>Total Amount of Loans (000's)</b>	\$458	\$63	\$521
<b>Percentage of Total Amount</b>	88%	12%	100%

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

A review of the sampled loan files within the assessment area was conducted to analyze borrower income characteristics. The following charts illustrate the distribution of the sampled loans extended within the assessment area by the income level of the borrower.

Distribution of Loans by Income Level of Borrower

Consumer Loans - Motor Vehicle

	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Total Number of Loans</b>	27	4	7	5	43
<b>Percentage of Total Loans</b>	63%	9%	16%	12%	100%
<b>Total Amount of Loans (000's)</b>	\$170	\$33	\$89	\$87	\$379
<b>Percentage of Total Amount</b>	45%	9%	23%	23%	100%

Distribution of Loans by Income Level of Borrower

Consumer Loans - Other Unsecured

	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Total Number of Loans</b>	20	8	4	2	34
<b>Percentage of Total Loans</b>	59%	23%	12%	6%	100%
<b>Total Amount of Loans (000's)</b>	\$31	\$26	\$18	\$4	\$78,699
<b>Percentage of Total Amount</b>	39%	33%	23%	5%	100%

The volume of consumer loans secured by motor vehicles (72%) and consumer unsecured loans (82%) extended to low- and moderate-income residents is substantially higher than the representation of such families in the assessment area (34%). The bank relies on the net income of the borrower as part of its credit decision process. The use of gross income figures rather than net income amounts would likely lower the percentage of loans extended to low- and moderate-income borrowers; however, reliance on either figure results in significant lending to these residents.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

As previously mentioned, the bank's assessment area is comprised entirely of middle-income geographics. Accordingly, 100% of the number and dollar amount of loans extended within the assessment area were in these geographies.

**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. Technical violations of the Equal Credit Opportunity Act's Regulation B were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.