

PUBLIC DISCLOSURE

January 22, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Bank and Trust

05511982

P.O. Box 3749

Norfolk, Virginia 23514

**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 and Trust prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of January 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 Satisfactory.

The bank at least meets the expectations for satisfactory performance for each of the assessment criteria. A sample of its lending reviewed during the examination reflects a reasonable penetration among individuals of different income levels and businesses of different sizes. While the geographic distribution of lending reflects a low penetration in low- and moderate-income areas, the institution's dispersion throughout the assessment area appears reasonable given the bank's size, location, and market strategy. No complaints have been reported concerning the institution's performance in meeting community credit needs.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>HERITAGE BANK AND TRUST</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.	No complaints were received since the prior examination.	No complaints were received since the prior examination.

DESCRIPTION OF INSTITUTION

Heritage Bank and Trust has two offices located within the City of Norfolk and one office located in the City of Chesapeake, Virginia. As of September 30, 1995, the bank had total assets of \$64.7 million. These assets are mainly comprised (68%) of credit extensions. Various loan and deposit products are available through the institution including loans for small business, residential real estate, commercial and industrial purposes, community development, and consumer purposes. Management's strategic focus is primarily on business lending with construction and development, multifamily residential, nonfarm nonresidential and commercial loans comprising 57% of the bank's loan portfolio. Other lending products include loans secured by real estate, which make up 34% of the portfolio, and consumer loans, which comprise 9%. The bank has recently increased its consumer lending activity through its credit card accounts primarily with students from a local community college.

DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as the entire Cities of Norfolk and Virginia Beach as well as the eastern portion of Chesapeake. The portion of Chesapeake included in the institution's assessment area includes the following 22 census tracts:

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- 200.02 208.04
- 200.03 209.01
- 201.00 209.03
- 202.00 209.04
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This assessment area is part of the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area which had a 1990 census count of 1,430,974 people. The 1990 census populations for Norfolk, Virginia Beach and Chesapeake were 261,229, 393,069, and 151,976, respectively. The minority populations for these cities are 116,093 (44%) for the City of Norfolk, 83,357 (21%) for the City of Virginia Beach, and 45,666 (30%) for the City of Chesapeake. Employment opportunities are available from numerous manufacturing and service industries, as well as from tourism and commercial and residential development. Moreover, several military base operations and shipyards are located in the area and provide a significant number of jobs to local residents. As of November, 1995, the MSA had an unemployment rate of 4.8%, while Norfolk, Virginia Beach and Chesapeake had unemployment rates of 5.3%, 4.3%, and 5.3% respectively. Although the downsizing of local industry and the declining defense budget have affected area unemployment in recent years, the prospects for future economic development appear favorable for the region. A community contact was performed during the examination to assist in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's average loan-to-deposit ratio for the previous five quarters was 72%. This ratio is considered reasonable given the institution's size, financial condition, and location.

LENDING IN ASSESSMENT AREA

A sample of 202 recently extended loans was reviewed to determine the bank's lending distribution within its assessment area. This sample consisted of 50 business loans, 46 mortgage loans, 33 unsecured consumer loans, and 73 consumer credit card loans. As illustrated below, a majority of the number and dollar amount of the sampled loans have been provided to residents of the bank's assessment area.

Comparison of Credit Extended Inside and Outside of the Assessment Area

	Loans Originated Inside the Assessment Area	Loans Originated Outside the Assessment Area
Total Number of Loans	169	33
Percentage of Total Loans	84%	16%
Total Amount of Loans (000s)	\$7,357	\$843
Percentage of Total Amount	90%	10%

LENDING TO BORROWERS OF DIFFERENT INCOMES

The following chart illustrates the distribution of consumer loans extended in the bank's assessment area by the income level of the borrower. The sample of 119 such loans revealed that loans to low- and moderate-income residents (26%) was slightly below the percentage of such residents (36%) within the bank's assessment area. Furthermore, the majority of the loans sampled consisted primarily of credit card accounts (61) of which 39% were extended to low- and moderate-income borrowers.

Distribution of Loans in Assessment Area by Income Level of Borrower

	Low Income	Moderate Income	Middle Income	Upper Income	Total
Total Number of Loans	15	15	31	58	119
Percentage of Total Loans	13%	13%	26%	48%	100%
Total Amount of Loans (000s)	\$20	\$24	\$334	\$3,586	\$3,964
Percentage of Total Amount	.5%	.6%	8%	91%	100%

A review of the bank's small business lending activity during 1995 was also conducted. A sample of 48 such loans indicated a majority of these credit extensions (62%) were made to businesses reporting less than \$1 million in gross revenues.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among various census tracts within the bank's assessment area. The following chart illustrates total loan penetration throughout the market based on a sample of 121 various consumer loans and 48 small business loans. The bank's percentage of lending in low- and moderate-income tracts is lower than the proportion of the population residing in such tracts (28%) within the bank's assessment.

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	1	13	39	116	169
Percentage of Total Loans	.6%	8%	23%	69%	100%
Total Amount of Loans (000s)	\$8	\$501	\$1,150	\$5,698	\$7,357
Percentage of Total Amount	.1%	7%	16%	77%	100%

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. A technical violation of the Equal Credit Opportunity Act's Regulation B was noted. Adequate policies, procedures,

and training programs have been developed to support nondiscrimination in lending activities.