

**PUBLIC DISCLOSURE**

May 6, 1996

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Highlands Union Bank

05510015

P. O. Box 1128

Abingdon, Virginia 24212

**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 Highlands Union Bank prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of May 6, 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 is considered reasonable given its financial capacity and location. Furthermore, the institution's high level of lending within the assessment area and reasonable lending levels to low- and moderate-income borrowers and to residents throughout the community demonstrate an overall satisfactory level of performance.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Highlands Union 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 have been received since the prior examination		

## **DESCRIPTION OF INSTITUTION**

Highlands Union Bank currently operates four full service branches and one drive-in facility. Two branches and the drive-in facility are located in the Town of Abingdon, while one branch is located in the City of Bristol, Virginia, and one in Washington County. As of March 31, 1995, the bank reported assets of \$172 million. The majority (70%) of these assets consist of loans. The composition of the loan portfolio is as follows: 66% real estate (consumer, business, and agricultural), 20% consumer, and 14% commercial. The bank offers a broad range of credit and deposit services, which are generally available at each branch. Credit services include residential mortgages for home purchase, home improvement, and home construction purposes and loans for various consumer, small business, and agricultural needs. Based on volume, unsecured consumer loans were identified as the bank's primary credit product.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area encompasses all of Washington County and the City of Bristol, Virginia. While the area is primarily rural, Washington County is part of the Bristol Metropolitan Statistical Area (MSA). There are 15 census tracts that make up the assessment area of which 14 are populated. Of the populated tracts three are considered moderate-income, nine are middle-income, and two are upper-income. According to the 1990 census, the population for the area totaled 64,313. The minority population for the area is 3.3%. As of March 1996, the unemployment rate for Washington County was 7% while the City of Bristol, Virginia, had an unemployment rate of 3.8%. The local economy is primarily dependent on local manufacturing companies and agriculture. The major manufacturing employers in the area are Westinghouse Electric Corporation, Bristol Compressors, Inc., Camac Corporation, Mid-Mountain Foods, Columbus McKinnon Corporation and U. S. Gypsum Company, Inc. Agricultural activities primarily involve poultry and egg production. A community contact was performed with a local public official to further assist in evaluating the bank's CRA performance. Information gathered from the contact revealed that local financial institutions have been active in meeting the credit needs for the area.

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

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

The average loan-to-deposit ratio for the previous eight quarters was 78%. During this period, the loan-to-deposit ratio has generally remained constant and is considered reasonable given the bank's financial capacity, size, and current local economic conditions. The bank's level of lending is responsive to the area's loan demand. The average loan-to-deposit ratio for bank's headquartered in metropolitan areas of Virginia of similar size to Highlands Union Bank is 71%. Furthermore, the Virginia portion of the Bristol MSA has only one other bank similar in size headquartered in the area. Its current loan-to-deposit ratio is 76%.

**LENDING IN ASSESSMENT AREA**

A sample of 167 unsecured consumer and 51 home improvement loans was reviewed to determine the bank's lending within its assessment area. As illustrated by the chart below, a majority of the number and dollar amount of the sampled loans have been provided to residents of the area.

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

	<b>Inside Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Total</b>
<b>Total Number of Loans</b>	198	20	218
<b>Percentage of Total Loans</b>	91%	9%	100%
<b>Total Amount of Loans (000's)</b>	\$1,787	\$83	\$1,870
<b>Percentage of Total Amount</b>	96%	4%	100%

**LENDING TO BORROWERS OF DIFFERENT INCOMES**

The following charts illustrate the distribution of the sampled loans extended within the assessment area by the income level of the borrower. The samples consist of 148 unsecured consumer and 50 home improvement loans.

**Distribution of Loans in Assessment Area by Income Level of Borrower**

Unsecured Consumer Loans

	<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>	38	33	30	47	148
<b>Percentage of Total Loans</b>	26%	22%	20%	32%	100%
<b>Total Amount of Loans (000's)</b>	\$82	\$122	\$150	\$605	\$959
<b>Percentage of Total Amount</b>	9%	13%	16%	62%	100%

Home Improvement Loans

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
<b>Total Number of Loans</b>	5	17	18	10	50
<b>Percentage of Total Loans</b>	10%	34%	36%	20%	100%
<b>Total Amount of Loans (000's)</b>	\$32	\$173	\$267	\$355	\$827
<b>Percentage of Total Amount</b>	4%	21%	32%	43%	100%

The volume of this lending activity to low- and moderate-income residents for unsecured consumer (48%) and for home improvement loans (44%) is somewhat greater than the area's representation in these income groups. Low- and moderate-income residents comprise 23% (low-income) and 19% (moderate-income) of the assessment area. Middle- and upper-income residents comprise 22% (middle-income) and 36% (upper-income) of the assessment area. The bank's consumer lending is considered to be reasonably distributed among all income levels, including low- and moderate-income.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The review of loan files also included an analysis of lending among various census tracts within the institution's assessment area. There is one low-income census tract located in the assessment area, however, it is not populated. As shown by the following charts, the majority of the sampled loans have been extended in middle-income areas.

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

Unsecured Consumer Loans

	Moderate- Income	Middle- Income	Upper- Income	Total
<b>Total Number of Loans</b>	16	111	21	148
<b>Percentage of Total Loans</b>	11%	75%	14%	100%
<b>Total Amount of Loans (000's)</b>	\$46	\$807	\$108	\$961
<b>Percentage of Total Amount</b>	5%	84%	11%	100%

Home Improvement Loans

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	7	40	3	50
Percentage of Total Loans	14%	80%	6%	100%
Total Amount of Loans (000's)	\$30	\$787	\$10	\$827
Percentage of Total Amount	4%	95%	1%	100%

Within the assessment area, 21% of the population reside in moderate-income areas, 65% reside in middle-income areas, and the remaining 14% reside in the upper-income areas. The bank's geographic distribution reflects a reasonable dispersion throughout the assessment area.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

No credit practices inconsistent with the provisions of the fair housing and fair lending laws and regulations were identified. A procedural deficiency along with isolated and technical violations of Regulation C's Home Mortgage Disclosure Act were identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

### Regression Program Usage Report

(This form should be filled out for each examination conducted involving a HMDA reporter.)

Institution Name: Highlands Union Bank

City, ST: Abingdon, Virginia

Exam Date: May 6, 1996

Number of HMDA LAR records: 1994 - 257; 1995 - 225

Year(s) of data considered: 1994 and 1995

	FHA, VA, & FmHA HOME Purchase		Conventional Home Purchase		Refinancings		Home Improvement	
	1994	1995	1994	1995	1994	1995	1994	1995
White Approvals	0	0	90	87	43	51	105	64
White Denials	0	0	4	8	3	2	1	9
Minority Approvals	0	0	4	1	1	0	6	3
Minority Denials	0	0	0	0	0	0	0	0

Was Step 1 of regression program run? N

if "N", why not? Insufficient number of minority denials

What grouping(s) of data (i.e, loan type, location, year(s), etc.) were used? MIN Pr > Chi Square Value

- (1) \_\_\_\_\_
- (2) \_\_\_\_\_
- (3) \_\_\_\_\_
- (4) \_\_\_\_\_
- (5) \_\_\_\_\_
- (6) \_\_\_\_\_