

**PUBLIC DISCLOSURE**

January 13, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Chesapeake Bank

05511475

P. O. Box 1419

Kilmarnock, Virginia 22482

**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 Chesapeake Bank, Kilmarnock, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of January 13, 1997. 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. A substantial majority of loans sampled during the examination were extended to borrowers residing within the assessment area. The institution's level of lending to low- and moderate-income residents slightly exceeds the representation of such families within the market. Additionally, the geographic distribution of lending inside the assessment area appears reasonable given area demographics.



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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Chesapeake 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**

Chesapeake Bank operates nine offices located in Gloucester, Lancaster, and Mathews Counties, Virginia. As of September 30, 1996, the institution had total assets of \$135 million, of which 67% were loans. Various deposit and credit products are available through the institution, including loans for residential mortgage, commercial, consumer, and agricultural purposes. Approximately 39% of the bank's loan portfolio consists of commercial and industrial loans or credit secured by farmland, nonfarm nonresidential properties, or other real estate to be used for construction and land development. Loans secured by one- to four-family residential properties and consumer credit comprised 41% and 19% of the remaining loan portfolio, respectively. Based on the number of loans recently extended, automobile loans and consumer unsecured loans have been identified as the bank's primary credit products. Total loans have consistently increased over the previous six quarters by approximately 13%, while total assets have risen by only 6%. The institution's previous CRA rating was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The institution's assessment areas include the City of Williamsburg, the Counties of Gloucester, James City, Lancaster, and Mathews, and the following block numbering areas (BNAs) in Northumberland and Middlesex Counties:

<u>Northumberland</u>	<u>Middlesex</u>
9903	9511 9512

Gloucester, James City, and Mathews Counties and the City of Williamsburg are located within the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area (MSA) and comprise one assessment area. According to the 1990 census, the population for this market is 84,868. There are 19 census tracts within the assessment area, of which 16 are populated. Of the populated areas, one is low-income, 12 are middle-income, and three are upper-income.

Lancaster County and the specified BNAs in Northumberland and Middlesex Counties have a population of 19,790 and comprise the institution's other assessment area. This market contains five middle-income BNAs and one upper-income BNA. There are no moderate-income geographies within either of the assessment areas. A majority of families in the market areas (68%) are middle- and upper-income families. The following table provides demographic information about the bank's assessment areas regarding the income level of families.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level - Within MSA	16%	16%	23%	46%	100%
Percentage of Area Families by Income Level - Non-MSA	20%	15%	21%	44%	100%



The local economy relies heavily on the seafood and tourism industries, with additional employment opportunities provided by agriculture and various medical fields. Current statistics indicate that unemployment rates range from 2.5% in James City County to 7.5% in Lancaster County. The current jobless rate for the Commonwealth of Virginia is 3.8%. The 1996 median family income for the Norfolk MSA was \$42,100 and for nonmetropolitan areas within Virginia was \$33,600. A community contact was performed with a local government official to further assist in evaluating the bank's CRA performance. The contact indicated that there is a need for additional business credit opportunities.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**LOAN-TO-DEPOSIT RATIO**

The average loan-to-deposit ratio for the previous six quarters is 71% and is considered reasonable given the institution's size, financial condition, and location. Since the bank's assessment areas include several geographies that are located within an MSA, loan-to-deposit ratios for both metropolitan and nonmetropolitan institutions were used as a means of comparison. The average loan-to-deposit ratio for banks headquartered in metropolitan areas of Virginia and of similar asset size to Chesapeake Bank is 74%, while the average loan-to-deposit ratio for comparable institutions in nonmetropolitan areas is 72%.

**LENDING IN ASSESSMENT AREA**

A sample of 67 consumer loans secured by motor vehicles and 75 unsecured consumer loans was reviewed to determine the volume of the institution's lending within the assessment areas. The following chart demonstrates the bank's lending activity within its market areas by number and dollar amount.

Comparison of Credit Extended Inside and Outside of Assessment Areas

	<b>Inside Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Total</b>
<b>Total Number of Loans</b>	132	10	142
<b>Percentage of Total Loans</b>	93%	7%	100%
<b>Total Amount of Loans (000's)</b>	\$1,024	\$126	\$1,150
<b>Percentage of Total Amount</b>	89%	11%	100%

As illustrated above, a substantial majority of the number and dollar amounts of the sampled loans have been provided to borrowers residing within the assessment areas.



**LENDING TO BORROWERS OF DIFFERENT INCOMES**

The following charts illustrate the distribution of the sampled consumer loans extended within the assessment areas by income level of the borrower.

Distribution of Loans by Income Level of Borrower

Consumer Loans - Motor Vehicle

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	14	16	11	20	61
<b>Percentage of Total Loans</b>	23%	26%	18%	33%	100%
<b>Total Amount of Loans (000's)</b>	\$112	\$172	\$133	\$225	\$642
<b>Percentage of Total Amount</b>	17%	27%	21%	35%	100%

Consumer Loans - Other Unsecured

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	18	19	14	20	71
<b>Percentage of Total Loans</b>	25%	27%	20%	28%	100%
<b>Total Amount of Loans (000's)</b>	\$33	\$94	\$91	\$164	\$382
<b>Percentage of Total Amount</b>	9%	24%	24%	43%	100%

The volume of consumer motor vehicle and unsecured loans extended to low- and moderate income residents is slightly greater than the representation of such families within the assessment area. As previously mentioned, low- and moderate-income families comprise 32% and 35% of the market population for metropolitan and nonmetropolitan areas, respectively.



## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The review of loan files also included an analysis of lending among various census tracts and BNAs within the institution's assessment areas. As previously indicated, the trade areas consist primarily of middle- and upper-income geographies. The following charts illustrate the distribution of the sampled motor vehicle and unsecured loans by income level of geography.

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

#### Consumer Loans - Motor Vehicles

	Low-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	51	10	61
Percentage of Total Loans	0%	84%	16%	100%
Total Amount of Loans(000's)	\$0	\$524	\$118	\$642
Percentage of Total Amount	0%	82%	18%	100%

#### Consumer Loans - Other Unsecured

	Low-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	64	7	71
Percentage of Total Loans	0%	90%	10%	100%
Total Amount of Loans(000's)	\$0	\$347	\$35	\$382
Percentage of Total Amount	0%	91%	9%	100%

The geographic distribution of loans for both credit types is reasonable given the local population residing in geographies of various income levels. Although no loans were made in low-income geographies, less than 1% of the market population reside in such areas. As mentioned previously, there are no moderate-income geographies within the assessment area. Seventy-four percent and 80% of the market population reside in middle-income geographies in the metropolitan and nonmetropolitan portions of the assessment areas, respectively.

## **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 Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support

nondiscrimination in lending and credit activities.

**Regression Program Usage Report**

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

Institution Name: Chesapeake Bank

City, State: Kilmarnock, Virginia

Exam Date: January 13, 1997

Number of HMDA LAR records: 224

Year(s) of data considered: 1995

	FHA, VA, & FmHA HOME Purchase		Conventional Home Purchase		Refinancings		Home Improvement	
	1995	Year	1995	Year	1995	Year	1995	Year
White Approvals	0		22		90		20	
White Denials	0		12		7		3	
Minority Approvals	0		0		11		5	
Minority Denials	0		5		4		10	

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) \_\_\_\_\_

**Results from Regression Step 2**

(Fill this page out for each grouping on which step 2 was run.)

Standard Variables which were not needed for Step 2:

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Judgmental Variables which were collected for Step 2:

_____	Cash Available for Closing	_____	Special Loan Program
_____	Refi from Same Lender	_____	Cash Out vs No Cash Out
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Value of MIN Pr > Chi-Square: \_\_\_\_\_

Number of Minority Rejections: \_\_\_\_\_

Number of "Dominant Pairs": \_\_\_\_\_

Explain which files pair analysis used: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

What additional factors explained away pairs? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Were pairs of loan files given to bank for explanation?            Y            N

Examiner hours spent specifically on regression: \_\_\_\_\_