

**PUBLIC DISCLOSURE**

May 12, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Union Bank and Trust Company

05510330

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Bowling Green, Virginia 22427

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

NOTE: 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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Union Bank and Trust Company, Bowling Green, Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of May 12, 1997. It does not reflect any CRA related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

### Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

## ASSIGNMENT OF RATING

### Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

#### **Outstanding record of meeting community credit needs**

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

#### **Satisfactory record of meeting community credit needs.**

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

#### **Needs to improve record of meeting community credit needs.**

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

#### **Substantial noncompliance in meeting community credit needs.**

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

### DISCUSSION OF INSTITUTION'S PERFORMANCE

#### Institution's Rating:

This institution is rated Satisfactory based on the findings presented below.

Union Bank and Trust Company primarily serves its delineated community through direct lending. A full range of credit products is offered including residential mortgage, home improvement, small business, commercial, consumer, and community development loans. Furthermore, a substantial majority of the loans originated during 1996 were within the delineated community, and the bank's distribution of lending is considered reasonable. Community development loans have been extended that have promoted economic revitalization and growth. The institution's fair lending practices, policies, and procedures were determined to be appropriate. Additionally, management's outreach efforts are indicative of its commitment to meet local credit needs and participate in community development endeavors.

#### SCOPE OF EXAMINATION

An evaluation of Union Bank and Trust Company was conducted to assess CRA performance. The assessment was based on statements made by bank management and staff, minutes of the board of directors' meetings, various other bank records, and a discussion with a local government official. The institution's performance was evaluated in the following categories: geographic distribution, marketing and types of credit offered and extended, community development, fair lending, and ascertainment of community credit needs.

#### PROFILE

##### Description of the Institution

Union Bank and Trust Company is a subsidiary of Union Bankshares Corporation and operates its main office in Bowling Green, Virginia. The institution has 12 branches located throughout the City of Fredericksburg and Spotsylvania, Stafford, Caroline, King William, and Hanover Counties. As of March 31, 1997, the bank had \$368 million in assets, of which 65% were loans. A wide variety of deposit and loan products is available through the institution, including loans for home purchase, home improvement, residential construction, consumer, and commercial purposes. The loan portfolio as of March 31, 1997, was 67% real estate secured (consumer and business), 23% consumer, and 10% commercial/agricultural. In January 1997, Union Mortgage Company was established. Union Bank and Trust Company owns 60% of this entity, while the remaining 40% ownership is shared between two bank affiliates.

The bank's average loan-to-deposit ratio for the previous five quarters is 82%. Since March 1996, total loans have increased by 9% and total deposits have grown 6%. For banks headquartered in metropolitan areas of Virginia and of similar asset size to Union Bank and Trust Company, the average loan-to-deposit ratio has ranged from 70% to 75% during the five-quarter period ending December 1996. Similarly situated institutions in nonmetropolitan areas of the Commonwealth had ratios ranging from 74% to 80% during this time period.

Reasonableness of Delineated Community

The bank's delineated community consists of the City of Fredericksburg, Virginia, Caroline and Spotsylvania Counties, and census tracts or block numbering areas (BNAs) of the following counties, as listed below.

<u>Stafford</u>	<u>Hanover</u>	<u>Henrico</u>	<u>King George</u>
101.01	3201	2009.01	9903
101.02	3204 to 3210	2009.03	9904
102.02 to 105.02	3214	2009.04	9905
<u>Essex</u>	<u>King &amp; Queen</u>	<u>King William</u>	
9506	9504	9501	

This delineation appears reasonable and does not exclude any low- and moderate-income areas.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Conclusion/Support

The institution has supported projects promoting economic growth throughout its delineated community consistent with its size, financial capacity, and location. The delineated community is located in the central region of the Commonwealth, north of the City of Richmond. Stafford, Spotsylvania, and King George Counties and the City of Fredericksburg are included within the Washington, D. C. Metropolitan Statistical Area (MSA); Hanover and Henrico Counties are included within the Richmond MSA. The remainder of the delineated community is not in an MSA.

The population of the bank's community is approximately 233,000, of which 62% and 24% reside in the Washington, D. C. and Richmond MSA portions of the market, respectively. The delineated area consists of 52 census tracts or BNAs of which eight are considered low-income. None of the low-income census tracts, however, are populated. Eleven geographies are moderate-income and contain 23% of the community's population. Ten of these are situated in the Washington, D. C. MSA, and one is located in the Richmond MSA. Twenty-seven of the remaining geographies are middle-income and six are upper-income.

The regional economy is well diversified among the manufacturing, agriculture, and service industries, as well as various military installations. Employment opportunities are also available with Government agencies and in education. In addition, many local residents commute to the Richmond and northern Virginia areas for jobs. The market's economy appears relatively stable with recent unemployment rates ranging from a high of 9.2% for Caroline County to a low of 2.5% for Stafford County. The current jobless rate for the Commonwealth of Virginia is 4%.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Conclusion/Support

The Board of Directors has adopted a formal CRA policy that provides for the periodic monitoring and review of the bank's CRA program. A committee composed of board members meets on a routine basis to discuss CRA activities and the geographic distribution of credit applications. The board has adopted an expanded CRA Statement which describes the bank's commitment and efforts to serve the credit needs of the local community.

CRA PERFORMANCE

**I. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES**

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Conclusion/Support

Information on the geographic distribution of accepted and denied applications is periodically compiled by census tracts or BNAs, as well as by loan type. As of March 31, 1997, 81% of outstanding loans were within the delineated community. Furthermore, approximately 19% of these loans extended within the bank's market were originated in low- and moderate-income geographies.

Additionally, an analysis of the small business and small farm lending during 1996 revealed that 90% of small business loans and all eight small farm loans were extended within the delineated community. Of the 332 small business loans originated in the community, 50% were within the delineated portion of the Washington, D. C. MSA and 30% were within the delineated portion of the Richmond MSA. Ninety-three (28%) of the 332 small business loans were made in low- or moderate-income census tracts/BNAs. Seventy-six (82%) of these 93 loans were originated in the Washington, D. C. MSA portion, and the remaining 17 (18%) were extended within the Richmond MSA. In addition, 73% of the reported small business loans were provided to businesses with revenues less than \$1 million.

According to the bank's 1996 Home Mortgage Disclosure Act data, 283 of 316 mortgage loans were originated in the bank's market area. The majority of these loans (58%) was extended in the nonmetropolitan areas of the delineated community. Twenty-five percent and 17% were made in the Washington, D. C. and Richmond MSAs, respectively. Forty-two (15%) of the loans reported within the bank's market were originated in low- or moderate-income census tracts/BNAs; 36 of these loans were extended in the Washington, D. C. MSA, and six were made in the Richmond MSA. Such tracts/BNAs account for 18% of owner-occupied housing units in the bank's market. There are no low- and moderate-income geographies located in the nonmetropolitan portion of the delineated community.

As evidenced by the above analyses, the distribution of loans demonstrates a reasonable penetration of lending into all segments of the delineated community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Conclusion/Support

The institution operates 13 offices that are accessible to all segments of its delineated community, and hours of operation are considered convenient. Two offices have been opened since the previous CRA evaluation in Spotsylvania and Stafford Counties. A total of six branches are located in the Washington, D. C. MSA and three in the Richmond MSA. The remaining four offices are in Caroline (3) and King William (1) Counties. Three of the bank's offices (23%) are located in moderate-income census tracts. A formal policy addressing branch closing procedures that meets the requirements of the Federal Deposit Insurance Corporation Improvement Act 1991 has been adopted. The policy encompasses all elements considered responsive to the bank's CRA obligations.

**II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Conclusion/Support

As identified in the CRA Public File, a full range of credit products is offered including commercial, small business, home purchase, residential construction, home improvement, and consumer loans. Through the institution's lending programs, a significant portion of community credit needs have been adequately addressed.

The institution offers a variety of consumer loans and has financed 4,329 such loans totaling \$59.2 million since the previous evaluation. In addition, the bank routinely extends mortgage loans for various purposes including the purchase, improvement, or refinance of a home. Since November 1995, 753 such loans totaling \$74.1 million have been originated. During this time period, 107 residential construction loans (\$17.3 million) were financed. Additionally, loans in amounts less than \$1,500 are routinely extended and often benefit low- and moderate-income individuals. Since the previous evaluation, 336 small dollar loans have been financed totaling \$375,723.

The institution continues to be an active business lender. Loans for small business start-up, expansion, and working capital are regularly extended. During 1996, 369 small business loans were originated totaling \$34.8 million. As mentioned previously, 332 of these business loans were made within the bank's market area. Additionally, eight small farm loans (\$508,000) were financed during 1996.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Conclusion/Support

As previously mentioned, Union Mortgage Company was established in January 1997, and has since been the primary mortgage financing vehicle for the bank. The mortgage company offers long-term fixed rate mortgages, as well as Government-sponsored mortgage loans. Since January 1997, three loans guaranteed by the Veterans Administration (\$413,370) and one loan insured by the Federal Housing Administration (\$72,200) have been extended. Small Business Administration loans are also available through the institution; however, none have been extended since the previous evaluation.

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Conclusion/Support

The bank advertises loan and deposit products in a variety of media including local newspapers and cable television stations. Marketing efforts also include the bank's officer call program, as well as statement stuffers and lobby brochures. Bank officers have provided assistance to local high schools and community organizations in understanding and applying for credit. The marketing efforts for this institution appear adequate.

**III. COMMUNITY DEVELOPMENT**

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Conclusion/Support

Through its outreach efforts, management is generally aware of community development and redevelopment programs within the local community and appears willing to participate in any such programs. The bank supports the development or implementation of specific projects promoting revitalization and growth consistent with its size, financial condition, and location. Participation in various projects has been in the form of direct lending, donations, and technical assistance.

During 1996, the bank, along with nine local financial institutions, established the Rappahannock Area Bankers Association (RABA). This organization, in conjunction with the Central Virginia Housing Coalition, provides financing for the rehabilitation of housing in low-income areas of the City of Fredericksburg. To date, two townhouses have been renovated in the Bragg Hill area of Fredericksburg and sold to lower-income residents. Union Bank and Trust Company pledged \$15,000 toward the loan pool and has funded approximately \$6,400 of its commitment. In October 1996, RABA established the Fredericksburg Area Micro Enterprise Program (FAME) in conjunction with the Rappahannock Economic Development Corporation. This program involves a small business loan pool which is designed to assist community based businesses that do not qualify for traditional bank financing. Businesses must have a net worth under \$10,000 and gross revenues less than \$100,000 to qualify for funds. The total commitment by area banks is \$135,000, of which Union Bank and Trust Company's portion is \$15,000. At this time, no loans have been extended under this program.

Management continues to support area development through direct lending to local businesses, individuals, and nonprofit organizations. Some of the loans recently extended for community development purposes include:

A \$567,000 loan was originated to a local developer to build low- and moderate-income housing in Hanover County.

Two loans totaling \$75,000 were extended to two local churches for renovations in Caroline County.

A \$200,000 line of credit was approved for the redevelopment of 18 residential lots that will be sold to low- and moderate-income individuals in Spotsylvania County.

A \$1.6 million loan was extended to a local developer in Spotsylvania County for the construction of a predominately low- and moderate-income housing subdivision.

In addition, financing has been provided to numerous business owners for start-up and expansion costs. The bank continues to provide funding for an affordable housing project through its affiliate, Union Bank Community Development Corporation (UBCDC). UBCDC obtained a \$355,000 six-year commitment from the bank in 1991 to finance the construction of low- and moderate-income rental housing for the elderly in Bowling Green.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

#### Conclusion/Support

Technical assistance, volunteer activities, and charitable contributions further support community development. Bank personnel have conducted presentations for local schools and civic groups concerning credit and financial issues. Monetary donations are also regularly provided to various nonprofit organizations, schools, and charities. The bank has also invested \$475,000 in an Industrial Development Authority bond issue for Caroline County. This funding will be used for improvements to the county landfill, as well as for renovations to an old school facility to provide additional office space for the county. The bank also purchased \$295,000 in bonds for improvements to the water system in Caroline County.

There appear to be no restrictions on the bank's ability to provide credit to the community consistent with its human and financial resources.

**IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES**

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Conclusion/Support

Adequate policies, procedures, and training have been developed to support nondiscrimination in lending and credit activities. Applications are solicited from all segments of the delineated community including low- and moderate-income neighborhoods. A review of the bank's 1996 Loan Application Register indicated that 28% of the reportable loans extended within the delineated community were made to minorities. For comparison purposes, the minority population of the market is approximately 18%.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Conclusion/Support

A review was made of lending policies, forms, procedures, and 53 accepted and 103 denied loan applications for consumer and business credit. Two loan officer interviews were also conducted to determine compliance with fair housing and fair lending laws and regulations. Violations of the technical aspects of the Equal Credit Opportunity Act's Regulation B and the Home Mortgage Disclosure Act's Regulation C were identified during the evaluation. The review of files demonstrated an equal application of credit standards and no discriminatory credit practices were identified.

**V. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS**

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Conclusion/Support

Outreach efforts continue to be satisfactory and demonstrate a willingness by the institution to support local community development. Directors and officers maintain significant relationships with regional housing and economic development organizations, trade associations, and civic groups. Such relationships provide management with valuable insight concerning local credit needs. Furthermore, local political, business, and community leaders are frequently contacted to identify market concerns.

VIOLATIONS OF REGULATION BB

None noted.