

**PUBLIC DISCLOSURE**

January 27, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Bank of Clarke County

05510220

P. O. Box 391

Berryville, Virginia

**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 Bank of Clarke County, Berryville, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of January 27, 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 Outstanding.

The bank's loan-to-deposit ratio is considered more than reasonable given its financial capacity and location. Furthermore, the institution's high level of lending within the assessment areas, particularly to low- and moderate-income borrowers, demonstrates an overall outstanding level of performance. The distribution of lending by the income level of geographies in the assessment areas exceeds standards for satisfactory performance.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Bank of Clarke County</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**

Bank of Clarke County operates five offices in the northwest portion of Virginia. These offices serve Clarke County, Frederick County, and the City of Winchester. As of September 30, 1996, the bank had total assets of \$124.3 million, of which 70% were credit extensions. The institution offers a variety of credit and deposit products, including loans for consumer, residential mortgage, and small business purposes. The loan portfolio as of September 30, 1996 was comprised of the following: 65% real estate secured (consumer and business), 24% consumer, and 11% commercial. Based on the number of loans extended, consumer purpose loans including other secured, unsecured, and those secured by motor vehicles, were identified as the principal credit product offered. The institution's previous CRA rating was outstanding.

## **DESCRIPTION OF ASSESSMENT AREA**

The institution's assessment areas consist of Clarke and Frederick Counties, and the City of Winchester, Virginia. The assessment area containing Clarke County, Virginia, has a population of 12,101 and consists of only three moderate-income census tracts. Clarke County is part of the Washington, D. C. Metropolitan Statistical Area (MSA). The bank's other assessment area includes the City of Winchester and Frederick County and is not part of an MSA. This area has a combined population of 67,670 and consists of ten low-income, six middle-income and eight upper-income census tracts. The ten low-income census tracts, however, are not populated. While the assessment areas remain primarily rural, their close proximity to the urban communities of northern Virginia have resulted in a steady population growth and increasing development of housing and light manufacturing businesses. Many local residents also commute to the Washington, D. C. metropolitan area for employment opportunities. The November 1996 unemployment rates for Clarke County, the City of Winchester, and Frederick County are 1.9%, 3.1%, and 3.2%, respectively. The jobless rate for the Commonwealth is 3.8%. The 1996 median family incomes for nonmetropolitan areas within the Commonwealth of Virginia and the Washington, D. C. MSA are \$33,600 and \$68,300, respectively.

An official from a local trade organization was contacted during the examination to further assist in evaluating the bank's CRA performance. Information gathered from the contact suggested that additional community services to assist the elderly population and credit education for small business owners are needed.

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

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

The average loan-to-deposit ratio of 80% for the previous five quarters is considered more than reasonable given the institution's size, financial condition, location, and current economic conditions. The bank's lending is responsive to the area's loan demand. The average loan-to-deposit ratios for banks headquartered in metropolitan areas and nonmetropolitan areas of Virginia and of similar asset size to the Bank of Clarke County are 74% and 72%, respectively.

**LENDING IN ASSESSMENT AREA**

To determine the bank's lending distribution within its assessment areas, a sample of loans extended during the previous six months was reviewed. This sample consisted of 101 consumer loans. As illustrated below, 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>	82	19	101
<b>Percentage of Total Loans</b>	81%	19%	100%
<b>Total Amount of Loans (000's)</b>	\$494	\$127	\$621
<b>Percentage of Total Amount</b>	80%	20%	100%

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

The following charts illustrate the distribution of the various consumer loans originated within the assessment area by income level of the borrower. The data are provided separately for each of the bank's assessment areas.

Distribution of Loans by Income Level of Borrower - MSA

	<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>	28	7	4	2	41
<b>Percentage of Total Loans</b>	68%	17%	10%	5%	100%
<b>Total Amount of Loans (000's)</b>	\$153	\$72	\$66	\$6	\$297
<b>Percentage of Total Loans</b>	52%	24%	22%	2%	100%

The volume of lending to low- and moderate-income residents (85%) substantially exceeds the proportion of low-income (30%) and moderate-income (27%) families in the metropolitan assessment area.

Distribution of Loans by Income Level of Borrower - NonMSA

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	19	10	8	4	41
<b>Percentage of Total Loans</b>	46%	24%	20%	10%	100%
<b>Total Amount of Loans (000's)</b>	\$56	\$81	\$27	\$33	\$197
<b>Percentage of Total Loans</b>	28%	41%	14%	17%	100%

The percentage of loans to low- and moderate-income residents (70%) within the nonmetropolitan assessment area is also substantially greater than the representation of such families (11% low-income and 14% moderate-income) within the market. Furthermore, a majority of the dollar amounts of loans extended in both assessment areas (76% and 69%) were to low- and moderate-income borrowers. Given the demographics of the assessment areas, the distribution of lending to borrowers reflects excellent penetration among individuals of different income levels.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The review of loan files also included an analysis of lending among various census tracts within the assessment areas. Within the bank's nonmetropolitan assessment area, 44% and 56% of the loans sampled were extended in middle- and upper-income geographies, respectively. The percentage of lending in middle- and upper-income census tracts approximates the percentage of the market population (43% middle-income and 57% upper-income) residing in these areas. This assessment area contains no populated low-income census tracts and no moderate-income census tracts.

As previously mentioned, only moderate-income census tracts comprise the metropolitan assessment area containing Clarke County; therefore, 100% of the number and dollar amount of loans extended with this assessment area were in these geographies. These loans, however, represented 50% of the number and 60% of the dollar volume of total sampled lending. Only 15% of the combined population of both assessment areas reside in these moderate-income tracts. The geographic distribution of the sampled consumer loans is more than reasonable given the local population residing in moderate-, middle-, and upper - income census tracts.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

No credit practices inconsistent with the substantive provisions of 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.