

**PUBLIC DISCLOSURE**

March 17, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Bank of Essex

05512830

P. O. Box 965

Tappahannock, Virginia 22560

**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 institutions 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 institutions record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Bank of Essex, Tappahannock, Virginia, prepared by the Federal Reserve Bank of Richmond, the institutions supervisory agency, as of March 17, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

**INSTITUTIONS CRA RATING:** This institution is rated Satisfactory.

The bank's loan-to-deposit ratio appears reasonable in relation to demand for credit in its assessment areas. A majority of loans sampled during the examination were extended to borrowers residing within the local community. In addition, the bank demonstrated a high level of lending to low- and moderate-income borrowers. While the bank's assessment area's contain no low- or moderate-income census tracts or block numbering areas (BNAs), the penetration of loans throughout middle- and upper-income geographies appears reasonable in relation to the demographics of the assessment areas.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Bank of Essex</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 Essex operates its main office in Tappahannock, Virginia and has four branches located within Essex, King William and Hanover Counties. As of December 31, 1996, the bank had total assets of \$116 million, of which 68% were credit extensions. The institution offers a variety of credit and deposit products, including loans for consumer, residential mortgage, small business, and agricultural purposes. The loan portfolio as of December 31, 1996, was comprised of the following: 78% real estate secured (consumer and business), 12% commercial/agricultural, and 9% consumer. Based on the number of loans originated during the previous six months, loans secured by motor vehicles and unsecured consumer loans were identified as the principal credit products offered by the bank. The institution's previous CRA rating was satisfactory.

## **DESCRIPTION OF ASSESSMENT AREA**

The institution's assessment areas encompasses all of Essex, King and Queen, King William, and Richmond Counties, and a portion of Hanover County, Virginia and are located in the east central portion of the Commonwealth. One of the assessment areas includes census tracts 3209 through 3214 within Hanover County. The county is included within the Richmond-Petersburg Metropolitan Statistical Area (MSA). The Hanover County assessment area includes one branch office and consists of three middle-income and three upper-income census tracts with a population of 29,884. This area continues to experience rapid growth in both housing and small business development.

The bank's other assessment area includes Essex, King and Queen, King William, and Richmond Counties. This area has a combined population of 33,164 and consists of seven middle-income and three upper-income block numbering areas (BNAs). This community comprises the largest portion of the bank's market area and is primarily rural. Many residents commute to nearby metropolitan cities including Richmond and Fredericksburg, as well as the Tidewater region for employment opportunities. The local community is primarily dependant upon small manufacturing, commercial fishing, agriculture, and forestry.

The January 1997 unemployment rates for the counties within the assessment areas range from 2.8% in Hanover County to 8.8% in Richmond County. The jobless rate for the Commonwealth is 4.5%. The 1996 median family incomes for nonmetropolitan areas within the Commonwealth of Virginia and the Richmond-Petersburg MSA are \$33,600 and \$49,300, respectively.

A local government official was contacted during the examination to further assist in evaluating the bank's CRA performance. Information gathered from the contact revealed the need for lower interest rate mobile home loans.

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

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

The average loan-to-deposit ratio for the previous five quarters is 70% and is considered reasonable given the institution's size, financial condition, location, and current economic conditions. The bank's level of lending is responsive to the area's loan demand. The average loan-to-deposit ratios for banks headquartered in metropolitan and nonmetropolitan areas of Virginia and of similar asset size to Bank of Essex are 75% 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 78 loans secured by motor vehicles and 88 unsecured consumer loans. As illustrated below, a majority of the number and dollar amounts of the sampled loans have been provided to borrowers residing within the local communities.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	128	38	166
Percentage of Total Loans	77%	23%	100%
Total Amount of Loans (000's)	\$559	\$287	\$846
Percentage of Total Amount	66%	34%	100%

The bank recently performed an analysis of all loans by census tract and BNA. According to bank records, 83% of all loans extended from July 1996 through December 1996 were to residents of the assessment areas.

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

The following charts illustrate the distribution of the sampled loans secured by motor vehicles and unsecured consumer loans originated within the nonmetropolitan portion of the bank's market by income level of the borrower.

Distribution of Loans by Income Level of Borrower - NonMSA  
Loans Secured by Motor Vehicles

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	9	10	12	11	42
Percentage of Total Loans	21%	24%	29%	26%	100%
Total Amount of Loans (000's)	\$54	\$43	\$48	\$85	\$230
Percentage of Total Loans	23%	19%	21%	37%	100%

Distribution of Loans by Income Level of Borrower - NonMSA  
Unsecured Consumer Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number					

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>of Loans</b>	23	21	11	6	61
<b>Percentage of Total Loans</b>	38%	34%	18%	10%	100%
<b>Total Amount of Loans (000's)</b>	\$45	\$29	\$24	\$28	\$126
<b>Percentage of Total Loans</b>	36%	23%	19%	22%	100%

The volume of lending to low- and moderate-income residents (45% for loans secured by motor vehicles and 72% for consumer unsecured loans) substantially exceeds the proportion of low-income (17%) and moderate-income (15%) families residing in the nonmetropolitan assessment area. Furthermore, a review of the bank's lending (NonMSA only) for the second half of 1996 revealed that 55% of all loans extended during that period were to low- and moderate-income borrowers. Middle- and upper-income families make up 21% and 47% of the community, respectively.

As previously indicated, the institution has only one branch office in Hanover County. Therefore, the majority of loans sampled were outside this metropolitan area. An analysis of the 25 sampled loans extended within the Hanover County assessment area revealed that 39% and 17% of loans secured by motor vehicles and 14% and 29% of unsecured consumer loans were provided to low-income and moderate-income residents, respectively. These percentages substantially exceed the representation of such families within the community (9% low-income and 16% moderate-income). Middle- and upper-income families comprise 28% and 47% of the market population, respectively.

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 and BNAs within the assessment areas. As previously mentioned, only middle- and upper-income geographies comprise the assessment areas. Within the bank's nonmetropolitan assessment area, 67% and 33% of the loans sampled were extended in middle- and upper-income geographies, respectively. Within the metropolitan assessment area, 72% were extended in middle-income census tracts while 28% of the loans sampled were made in upper-income census tracts. The percentage of lending in middle-income BNAs within the nonmetropolitan area reasonably reflects the percentage of the market population (67%) residing in such geographies. The percentage of lending in middle-income census tracts within the MSA assessment area exceeds the percentage of the market population (53%) residing in such areas.

**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.