

**PUBLIC DISCLOSURE**

May 19, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Heritage Bank and Trust

05511982

P. O. Box 3749

Norfolk, Virginia 23514

**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**

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 CRA performance of Heritage Bank and Trust, Norfolk, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of May 19, 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 in relation to demand for credit in the area. A substantial majority of loans sampled during the examination were to residents of the assessment area. While lending to borrowers of different income levels meets standards for satisfactory performance, the bank's lending throughout geographies of varying income levels does not reflect assessment area populations.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Heritage Bank and Trust</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 previous examination.		

**DESCRIPTION OF INSTITUTION**

Heritage Bank and Trust operates two offices located within the City of Norfolk and one office located in the City of Chesapeake, Virginia. As of March 31, 1997, the bank had total assets of \$83 million of which 55% were loans. Various credit and deposit products are available through the institution including loans for small business, residential real estate, commercial and industrial, and consumer purposes. The loan portfolio as of March 31, 1997, was comprised of the following: 72% real estate secured (consumer and business), 20% commercial and industrial, and 8% consumer. Based on the number of loans originated during 1996, consumer loans (credit cards, motor vehicle, home equity, and unsecured) were determined to be the primary credit products offered by the bank. The institution's previous CRA rating was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The bank defines its assessment area as the entire Cities of Norfolk and Virginia Beach, as well as the eastern portion of Chesapeake. The portion of Chesapeake within the institution's assessment area includes the following 22 census tracts:

200.01	203.00	208.01	209.04	211.02
200.02	204.00	208.03	210.01	212.00
200.03	205.02	208.04	210.03	
201.00	206.00	209.01	210.04	
202.00	207.00	209.03	211.01	

The assessment area is part of the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area (MSA), and, according to the 1990 census, has a population of 758,883. One-hundred and seventy-eight census tracts are included in the bank's assessment area; however, four are unpopulated. Of the community's 174 populated geographies, 20 are low-income, 40 are moderate-income, 65 are middle-income, and 49 are upper-income.

Employment opportunities are available from numerous manufacturing and service companies, as well as from tourism and commercial and residential real estate development. Several military bases and shipyards are located in the area and also provide a significant number of jobs to local residents. As of March 1997, the Norfolk-Virginia Beach-Newport News MSA had an unemployment rate of 4.6% as compared to a jobless rate of 4% for the Commonwealth. Despite military downsizing, unemployment remains relatively stable and prospects for future economic growth appear good. The 1996 median-family income for the Norfolk-Virginia Beach-Newport News MSA was \$42,100.

A community contact was recently performed with a representative from a local economic development organization to further assist in evaluating the bank's CRA performance. The contact suggested that additional business credit would benefit the area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**LOAN-TO-DEPOSIT RATIO**

The average loan-to-deposit ratio for the previous five quarters is 66% and is considered reasonable given the institution's size, financial capacity, and current economic conditions. The average range of loan-to-deposit ratios for banks headquartered in metropolitan areas of Virginia of similar asset size to Heritage Bank and Trust Company is 69% to 72%.

**LENDING IN ASSESSMENT AREA**

A sample of 103 recently extended loans was reviewed to determine the bank's lending distribution within its assessment area. This sample consisted of an assortment of consumer unsecured, credit card, motor vehicle, and home equity loans. As illustrated below, a substantial majority of the number and dollar amount of the sampled loans have been provided to residents of 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>	84	19	103
<b>Percentage of Total Loans</b>	82%	18%	100%
<b>Total Amount of Loans (000s)</b>	\$1,292	\$256	\$1,548
<b>Percentage of Total Amount</b>	83%	17%	100%

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

The following chart illustrates the distribution of consumer loans extended in the bank's assessment area by income level of the borrower.

Distribution of Loans by Income Level of Borrower

	<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>	15	15	17	37	84
<b>Percentage of Total Loans</b>	18%	18%	20%	44%	100%
<b>Total Amount of Loans (000s)</b>	\$117	\$119	\$228	\$828	\$1,292
<b>Percentage of Total Loans</b>	9%	9%	18%	64%	100%

As a means of comparison, the following table provides assessment area demographics by the income level of families.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
<b>Percentage of Area Families by Income Level</b>	17%	19%	24%	40%	100%

When measured against the income characteristics of area families, consumer lending is reasonably distributed among borrowers of 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 bank's assessment area. The following chart depicts the distribution of the 84 sampled consumer loans made within the assessment area according to income level of the geography.

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

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
<b>Total Number of Loans</b>	1	4	28	51	84
<b>Percentage of Total Loans</b>	1%	5%	33%	61%	100%
<b>Total Amount of Loans (000s)</b>	\$11	\$13	\$449	\$819	\$1,292
<b>Percentage of Total Loans</b>	1%	1%	35%	63%	100%

The percentage of lending in low- and moderate-income tracts is substantially lower than the proportion of the population residing in such tracts (28%). Nine percent and 19%, respectively, of the assessment area population reside in low- and moderate-income census tracts. Several of the moderate-income geographies in the assessment area are located within, or in close proximity to, four military installations. The presence of large credit unions that have traditionally serviced military personnel operate within such tracts and throughout the assessment area. Competition from these particular credit unions may have contributed to the low volume of bank lending within low- and moderate-income census tracts.

**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: Heritage Bank and Trust

City, State: Norfolk, Virginia

Exam Date: May 19, 1997

**Number of HMDA LAR records**

**Year(s) of data considered:** 1995 and 1996

	FHA, VA, & FmHA HOME Purchase		Conventional Home Purchase		Refinancings		Home Improvement	
	1995	1996	1995	1996	1995	1996	1995	1996
White Approvals	0	0	15	10	6	5	19	13
White Denials	0	0	1	0	0	0	0	0
Minority Approvals	0	0	0	0	0	0	1	3
Minority Denials	0	0	0	0	0	0	0	0

Was Step 1 of regression program run? No

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: \_\_\_\_\_