

PUBLIC DISCLOSURE

March 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Virginia Heartland Bank

05511125

P.O. Box 7267

Fredericksburg, Virginia 22404

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 Virginia Heartland Bank, Fredericksburg, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of March 30, 1998. 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 reasonable given its financial capacity, current economic conditions, and demand for credit in the area. A substantial majority of the loans sampled during the examination were extended within the assessment area. The institution's lending to low- and moderate-income borrowers and businesses with revenues under \$1 million exceeds standards for satisfactory performance. The distribution of lending by income level of geography is considered reasonable.

DESCRIPTION OF INSTITUTION:

Virginia Heartland Bank operates three offices in Fredericksburg, Virginia, which serves as a bedroom community to the nearby Cities of Washington, D.C. and Richmond, Virginia. As of December 31, 1997, the bank had \$94 million in assets of which 64% were loans. The composition of the loan portfolio is as follows: 78% real estate secured (business and consumer), 13% commercial, and 9% consumer. Various loan and deposit products are available through the institution, including loans for small business, consumer, and residential mortgage purposes. Based on the number of loans extended during the previous six months, commercial loans and consumer motor vehicle loans were identified as the primary credit products offered by the bank. The institution's previous CRA rating was outstanding.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area, which is located within the Washington, D.C. Metropolitan Statistical Area (MSA), encompasses the City of Fredericksburg and the Counties of Stafford and Spotsylvania, Virginia. This area consists of 29 census tracts of which eight are considered low-income, nine are moderate-income, and 12 are middle-income. None of the low-income tracts are populated, however, and the assessment area does not include any upper-income geographies. According to the 1990 census, the population for the delineated market is 137,666. The 1997 median family income for the metropolitan area is \$70,300.

The following table provides assessment area demographics by the income level of families and the population living in census tracts of varying income levels.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Area Families by Income Level	21%	26%	29%	24%	100%
Percentage of Population Residing in Census Tracts by Income Level	0%	32%	68%	0%	100%

GEICO, an insurance company, and Mary Washington Hospital, as well as tourism and various service industries, provide local job opportunities. Many local residents commute to the Cities of Washington, D.C. and Richmond, Virginia for additional employment opportunities. Current jobless rates are 4.0% for the City of Fredericksburg, 2.9% for Spotsylvania County, and 2.2% for Stafford County. The unemployment rate for the Commonwealth of Virginia is 3.7%.

A community contact was made with a representative of an economic development organization to further assist in evaluating the bank's performance. This individual indicated that local financial institutions are meeting the credit needs of both small businesses and consumers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The institution is responsive to area loan demand. During a six-quarter period ending December 1997, the quarterly average loan-to-deposit ratio for banks located in metropolitan areas of Virginia and of similar asset size to Virginia Heartland Bank ranged from 70% to 74%. The institution's average loan-to-deposit ratio for a six-quarter period ending December 1997 is 73% and is considered reasonable relative to the demand for credit and given strong economic conditions in the assessment area.

LENDING IN ASSESSMENT AREA

To determine the institutions volume of lending within the assessment area, a sample of 50 of the 68 commercial loans and 75 of the 120 consumer motor vehicle loans extended during the previous six months was reviewed.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	102	23	125
Percentage of Total Loans	82%	18%	100%
Total Amount of Loans (000's)	\$3,318	\$783	\$4,101
Percentage of Total Amount	81%	19%	100%

As illustrated above, a substantial majority of the number and dollar amounts of the sampled loans have been provided to residents of the assessment area.

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

The following two charts illustrate the distribution of the sampled consumer motor vehicle and commercial loans extended within the assessment area to borrowers of different incomes and to businesses of different sizes.

Distribution of Loans by Income Level of Borrower

Consumer Motor Vehicle

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	40	15	6	2	63
Percentage of Total Loans	63%	24%	10%	3%	100%
Total Amount of Loans (000's)	\$226	\$87	\$54	\$42	\$409
Percentage of Total Loans	55%	21%	14%	10%	100%

The volume of lending to low-and moderate-income residents (87%) substantially exceeds the proportion of such families residing in the assessment area. Low- and moderate-income families represent 47% of the assessment area population (21% low and 26% moderate). Moreover, a significant majority of the total dollar amounts of the consumer motor vehicle loans (55%) were to low-income borrowers.

Distribution of Loans by Size of Business

	Revenues ≤ \$ 1 Million	Revenues > \$ 1 Million	Total
Total Number of Loans	36	3	39
Percentage of Total Loans	92%	8%	100%
Total Amount of Loans	\$2,665	\$243	\$2,908
Percentage of Total Amount	92%	8%	100%

The review of the 39 commercial loans within the assessment area revealed that a majority were to businesses with revenues less than \$1 million and demonstrates the bank's responsiveness to the needs of small businesses.

Additionally the bank works with the Central Virginia Housing Coalition, which assists low-and moderate-income families with obtaining affordable housing. Virginia Heartland Bank recently renewed its participating interest in several loans to the coalition.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among moderate- and middle-income census tracts within the institution's assessment area. As mentioned previously, there are no populated low-income geographies or upper-income geographies in the bank's market. The following tables illustrate the geographic distribution of the sampled consumer motor vehicle and commercial loans.

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

Consumer Motor Vehicle

	Moderate-Income	Middle-Income	Total
Total Number of Loans	26	37	63
Percentage of Total Loans	41%	59%	100%
Total Amount of Loans (000's)	\$187	\$222	\$409
Percentage of Total Loans	46%	54%	100%

Commercial Loans

	Moderate-Income	Middle-Income	Total
Total Number of Loans	17	22	39
Percentage of Total Loans	44%	56%	100%
Total Amount of Loans (000's)	\$1,345	\$1,563	\$2,908
Percentage of Total Amount	46%	54%	100%

Within the market, 32% of the population resides in moderate-income census tracts, and 68% resides in middle-income areas. Overall, the volume of the sampled loans extended within moderate-income census tracts (42%) exceeds the population within such areas. The geographic distribution of lending activity reflects a reasonable dispersion throughout the assessment area and is consistent with local demographics.

INVESTMENTS AND SERVICES

The bank has invested \$15,000 with the Fredericksburg Area Micro-Enterprise Program, created to provide assistance to small businesses and prospective business owners who may not have access to traditional financing. Through assistance from the Micro-Enterprise program, many of the small businesses generate job opportunities for the owners and particularly low-income individuals.

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. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.