

PUBLIC DISCLOSURE
December 16, 2002
COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Rockingham Heritage Bank
1495331
P. O. Box 352
Harrisonburg, Virginia 22801

Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261

NOTE: This document is an evaluation of this 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. 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.

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered more than reasonable in relation to demand for credit in the assessment area.
- A substantial majority of the institution's sampled small business and motor vehicle loans were originated within the bank's assessment area.

- Lending to borrowers of different income levels and to businesses of different sizes is considered excellent using various proxies for demand.
- The distribution of lending by income level of geography is considered reasonable given area demographics and aggregate data.
- There have been no complaints regarding the bank's CRA performance since the previous evaluation.

DESCRIPTION OF INSTITUTION

Rockingham Heritage Bank operates seven branch offices in the Cities of Harrisonburg, Waynesboro, and Stanton and the Counties of Rockingham and Augusta, Virginia. The institution is a subsidiary of Premier Community Bankshares, a multibank holding company, and an affiliate of Marathon Bank, both of which are located in Winchester, Virginia. In addition, the bank owns RHB Services, a title insurance subsidiary. As of September 30, 2002, the bank had total assets of \$165.7 million, of which 83.2% were loans. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The loan portfolio, as of September 30, 2002, was comprised of 71.6% real estate secured (both consumer and business), 23.9% commercial, 4.4% consumer, and .1% other purpose. Motor vehicle and commercial loans were identified as primary credit products offered by the bank. The institution's previous CRA rating was outstanding.

DESCRIPTION OF ASSESSMENT AREA

Rockingham Heritage Bank's assessment area includes the Cities of Harrisonburg, Waynesboro, and Staunton, Virginia, as well as Rockingham County and the following census tracts in Augusta County, Virginia:

Area	Census Tracts
Augusta County	702.00-709.00
	713.98-718.98

This assessment area contains 55 census tracts, of which one is considered moderate-income, 22 are middle-income, 19 are upper-income, and 13 are unpopulated and reported median family income of zero. There are no low-income geographies in the market. According to the 1990 census data, the assessment area has a population of 166,282 and a median housing value of \$73,320. The owner-occupancy rate for the market is 63.8% and is slightly lower than that for nonmetropolitan areas of

Virginia at 65.1%. Within the assessment area, 6.4% of the families are living below the poverty level. This is lower than the nonmetropolitan poverty rate of 11.5%. The 2001 median family income for the nonmetropolitan areas of Virginia is \$40,800.

The following table provides demographics for the assessment area by the income level of families and the percentage of population and owner-occupied housing units in census tracts of varying income levels. Poverty rates are also provided. The percentage of commercial entities as reported by Dun and Bradstreet (D&B) is also provided by income level of census tract. During 2001, D&B demographic data indicated that 91.5% of assessment area businesses with known revenues reported revenues under \$1 million.

Assessment Area Demographics

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	13%	14.9%	23.8%	48.3%	100%
Percentage of Population Residing in Geographies by Income Level of Geography	N/A	.7%	52.1%	47.2%	100%
Percentage of Owner-Occupied Housing Units by Income Level of Geography	N/A	0.5%	53.4%	46.1%	100%
Percentage of Businesses in Geographies by Income Level of Geography	N/A	4.3%	46.3%	49.4%	100%*
Percentage of Families Below Poverty Rate by Income Level of Geography	N/A	22.3%	7.5%	4.8%	N/A

* Three business entities are located within a tract that reported no median family income.

The bank's assessment area is located in the Shenandoah Valley of Virginia, equidistant from the District of Columbia and the Cities of Richmond and Roanoke. The local economy is dominated by the poultry industry with agriculture, tourism, manufacturing, and service industries providing additional employment opportunities. Additionally, the area is home to James Madison University, Bridgewater College, and Eastern Mennonite University. As of November 2002, the unemployment rates for the Cities of Harrisonburg, Staunton, and Waynesboro, and the Counties of Rockingham and Augusta are 1.4%, 3%, 4.2%, 2.8%, and 2.7%, respectively. The jobless rate for the Commonwealth of Virginia is 3.6%.

A local economic development official was contacted during the evaluation to assist in evaluating the bank's CRA performance. The individual indicated that local financial institutions are adequately meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

The quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to Rockingham Heritage Bank ranged from 71.7% to 77.3% for the 20-quarter period ending September 30, 2002. During the same 20-quarter period, the bank's average quarterly loan-to-deposit ratio was 93.3%. Since December 31, 1997, total loans, deposits, and assets have increased 150.8%, 121.2%, and 128.1%, respectively. Overall, the bank's level of lending is considered more than reasonable given the institution's size, branch locations, and financial capacity.

LENDING IN ASSESSMENT AREA

To determine the institution's volume of lending within the assessment area, a sample of 115 motor vehicle and 91 small business loans were reviewed. The samples were selected from 266 motor vehicle loans and 165 commercial loans made during the previous 12 months. The lending distribution is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	191	15	206
Percentage of Total Loans	92.7%	7.3%	100%
Total Amount of Loans (000's)	\$11,708	\$892	\$12,600
Percentage of Total Amount	92.9%	7.1%	100%

As illustrated above, a substantial majority of the number (92.7%) and dollar amount of loans (92.9%) have been provided to residents and businesses within the assessment area. Overall, the percentage of loans made in the bank's assessment area is considered highly responsive to community credit needs.

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

The tables that follow present data about the bank's lending to businesses of different sizes and to borrowers of different income levels. To evaluate the bank's lending penetration, the 105 sampled motor vehicle loans and 86 sampled small business loans originated within the bank's assessment area were analyzed.

Area demographics, 2001 aggregate data, and D&B information are used as proxies for demand. Aggregate small business lending data includes all reporting institutions that originated such loans within the bank's assessment area during 2001, as required by the CRA. Rockingham Heritage Bank is not subject to CRA reporting requirements; consequently, the bank's small business lending activity is not included within the aggregate information. Discussion of the bank's performance follows each table.

Distribution of Motor Vehicle Loans by Income Level of Borrower

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	20	22	24	39	105
Percentage of Total Loans	19%	21%	22.9%	37.1%	100%
Total Amount of Loans (000's)	\$113	\$143	\$219	\$563	\$1,038
Percentage of Total Amount	10.9%	13.8%	21.1%	54.2%	100%

Of the motor vehicle loans reviewed, 19% were to low-income borrowers and 21% were to moderate-income borrowers. The bank's level of motor vehicle lending to low- and moderate-income families is considered excellent when compared to the percentage of such families (13% low and 14.9% moderate) located within the assessment area.

Distribution of Loans by Size of Business

	Revenues \leq \$ 1 Million	Revenues $>$ \$ 1 Million	Total
Total Number of Loans	62	24	86
Percentage of Total Loans	72.1%	27.9%	100%
Total Amount of Loans (000's)	\$6,160	\$4,509	\$10,669
Percentage of Total Amount	57.7%	42.3%	100%

Based on recent D&B demographic data, 91.5% of local businesses that reported revenue data have annual revenues of \$1 million or less. According to 2001 aggregate small business data, at least 52% of all small business loans reported within the market area were to businesses with revenues of \$1 million or less. The remaining loans were extended to businesses having annual revenues in excess of \$1 million or revenue data was not reported. As indicated in the table above, 72.1% of the bank's loans were to entities with revenues of \$1 million or less. The bank's level of small business lending is considered excellent.

Overall, the bank's level of lending to borrowers of different income levels and to businesses with revenues of \$1 million or less is considered excellent when compared with product characteristics, area demographics, D&B information, and 2001 aggregate data.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans in the assessment area is reflected in the following tables. Area demographics, D&B business information, and aggregate data are used as proxies for demand. Discussion of the bank's performance follows each table.

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

	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	55	50	105
Percentage of Total Loans	0%	52.4%	47.6%	100%
Total Amount of Loans (000's)	\$0	\$515	\$523	\$1,038
Percentage of Total Amount	0%	49.6%	50.4%	100%

None of the sampled motor vehicle loans were extended within the moderate-income area. However, only .7% of the area's population reside in the one moderate-income geography. The poverty rate for this area is very high (22.3%) as well. These two factors may effectively reduce the demand for loans within this geography.

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

	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	1	40	45	86
Percentage of Total Loans	1.2%	46.5%	52.3%	100%
Total Amount of Loans (000's)	\$100	\$4,153	\$6,417	\$10,670
Percentage of Total Amount	1%	38.9%	60.1%	100%

Rockingham Heritage Bank's small business loan penetration in the moderate-income tract (1.2%) is lower than the percentage of area businesses in such tract (4.3%). According to 2001 aggregate small business data, for all lenders required to report data in this market, 2.8% were extended to businesses in the moderate-income area. The bank's level of small business lending in the one moderate-income tract is considered reasonable.

Overall, the level of lending in geographies of varying income levels is considered reasonable when compared with various proxies for demand.

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 activities.