

September 13, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

James River Bank/Colonial
216829
1803 S. Church Street
Smithfield, Virginia 23431

**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.

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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 James River Bank/Colonial, Smithfield, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of September 13, 1999. 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 given its financial capacity and demand for credit in the area. A majority of loans analyzed were to residents and businesses located in the bank's market. The institution's level of lending to low- and moderate-income borrowers and to businesses with

revenues of \$1 million or less is considered good. Additionally, the distribution of lending by income level of census tracts is considered adequate given the bank's resources, branch locations, and demographic characteristics of the local community. The bank has not received any complaints regarding its CRA performance since the last examination.

DESCRIPTION OF INSTITUTION

James River Bank/Colonial is headquartered in Smithfield, Virginia, and operates two additional offices in York County and in the City of Newport News. As of June 30, 1999, the bank had assets of \$43 million, of which 62% were loans. Various deposit and loan products are available through the institution, including loans for consumer, residential mortgage, business, and agricultural purposes. The loan portfolio as of June 30, 1999, was comprised of the following: 54% real estate secured (consumer and business), 35% commercial/agricultural, and 11% consumer. Based on recent loan volume and the institution's market strategy, commercial/ agricultural and consumer loans were identified as the institution's primary credit products. The institution's previous CRA rating was satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The bank's main office in Isle of Wight County, located in the southeastern portion of Virginia, is bordered by the James River to the north and the City of Suffolk to the east. The institution's assessment area includes the entire county of Isle of Wright, Virginia, and the following portions of York County and the Cities of Newport News and Hampton:

<u>York County</u>	<u>City of Newport News</u>	<u>City of Hampton</u>
502.01 – 504.02	309.00	103.02
	311.00 – 321.13	103.03
	321.98	
	322.12	

The assessment area is part of the Norfolk-Newport News-Virginia Beach Metropolitan Statistical Area (MSA) and consists of 30 census tracts. Of these tracts, one is low-income, four are moderate-income, 16 are middle-income and nine are upper-income. According to 1990 census data, the assessment area has a population of 170,804 and a median housing value of \$90,644. The owner occupancy rate for the market is 58% and is comparable to the Commonwealth and MSA rates of 61% and 55%, respectively. The 1999 median family income for the MSA is \$48,000.

The following tables provide demographic information for the assessment area by the income level of families and the percentage of population living in census tracts of varying income levels. The percentage of owner-occupied units within the various geographies and the percentage of families below the poverty level are also provided.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	16%	18%	25%	41%	100%
Percentage of Population Residing in census tracts by Income Level	2%	8%	66%	24%	100%
Percentage of Owner-occupied Units	1%	6%	62%	31%	100%
Percentage of Families Below Poverty by Income Level of Geography	42%	15%	7%	2%	N/A

The portion of the bank's assessment area in York County and the Cities of Newport News and Hampton (26 census tracts) are considered highly metropolitan and support a diverse economy. Major employers include the military and various manufacturing, finance, and retail-related businesses. Although part of the MSA, the four census tracts in Isle of Wight County are predominantly rural. There are only two incorporated towns within the county, Smithfield, and Windsor. The rural economy depends primarily on agriculture, meat processing/packaging, and manufacturing. Unemployment rates as of July 1999 for the assessment area and Commonwealth of Virginia are as follows:

City of Newport News	3.8%
City of Hampton	3.8%
Isle of Wight County	3.1%
York County	2.0%
Commonwealth of Virginia	2.8%

A community contact was performed with a representative from a local government agency to further assist in evaluating the bank's CRA performance. The contact indicated that area banks are 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 metropolitan areas of Virginia and of similar asset size to James River Bank/Colonial ranged from 55% to 75% for the ten-quarter period ending June 30, 1999. The bank's average loan-to-deposit ratio for the same ten-

quarter period is 61% and is considered 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 112 consumer loans and 111 commercial/agricultural loans was reviewed. The consumer loans are those loans to one or more individuals for household, family, or other personal expenditures. The samples were selected from approximately 252 consumer loans and 245 commercial/agricultural loans extended during the previous six 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	169	54	223
Percentage of Total Loans	76%	24%	100%
Total Amount of Loans (000's)	\$8,575	\$2,161	\$10,736
Percentage of Total Amount	80%	20%	100%

As illustrated above, a majority of the number (76%) and dollar amounts (80%) of loans sampled were provided to residents and businesses in the assessment area demonstrating the bank's commitment to serving the credit needs of the community.

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

The following charts illustrate the distribution of the 80 consumer loans and the 89 commercial/agricultural loans extended within the assessment area by income level of the borrower and by the size of the business. The data are provided separately for each analysis.

Distribution of Loans by Income Level of Borrower

Consumer Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	19	20	15	26	80

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Total Loans	24%	25%	19%	32%	100%
Total Amount of Loans (000's)	\$110	\$369	\$127	\$1,183	\$1,789
Percentage of Total Amount	6%	21%	7%	66%	100%

Of the 80 consumer loans sampled, 49% were made to low- and moderate-income borrowers. This level of lending is higher than the proportion of low- and moderate-income families (16% and 18%, respectively) residing in the assessment area. Furthermore, 27% of the dollar amounts of the loans were extended to these borrowers.

Distribution of Loans by Size of Business

	Revenues \leq \$ 1 Million	Revenues $>$ \$ 1 Million	Total
Total Number of Loans	81	8	89
Percentage of Total Loans	91%	9%	100%
Total Amount of Loans (000's)	\$6,363	\$422	\$6,785
Percentage of Total Amount	94%	6%	100%

As illustrated in the table above, 91% of the commercial/agricultural loans in the assessment area were provided to businesses with revenues of \$1 million or less. This level of lending compares equally to Dun and Bradstreet's demographic business data, in which 91% of the business establishments within the assessment area have sales less than \$1 million. The level of lending to businesses with revenues of \$1 million or less demonstrates the bank's willingness to meet the credit needs of local small businesses.

Overall, the institution's lending distribution to businesses of different sizes and to borrowers of different income levels is considered more than reasonable using area demographics as a proxy for demand.

GEOGRAPHIC DISTRIBUTION OF LOANS

A review of the loan files also included an analysis of lending among the various geographies within the assessment area. The following charts depict loan penetration throughout the market based on the sample of consumer and commercial/agricultural loans.

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

Consumer Loans

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	1	68	11	80
Percentage of Total Loans	0%	1%	85%	14%	100%
Total Amount of Loans (000's)	\$0	\$5	\$1,279	\$506	\$1,790
Percentage of Total Amount	0%	1%	71%	28%	100%

As noted above, none of the loans sampled were in a low-income census tract and only one was extended in a moderate-income census tract. This level of lending to low and moderate-income geographies (1%) is significantly less than the percentage of the population residing in such area (10%). However, 57% of the population residing in the assessment area's one low-income and four moderate-income tracts are living below the poverty level, suggesting the effective demand for consumer loans in these areas may be somewhat limited. Furthermore, all of the low- and moderate-income geographies are located in the City of Newport News, in which the bank competes with local credit unions and a number of bank branches of larger statewide institutions for loan customers.

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

Commercial/Agricultural Loans

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	0	84	5	89
Percentage of Total Loans	0%	0%	94%	6%	100%
Total Amount of Loans (000's)	\$0	\$0	\$6,602	\$183	\$6,785
Percentage of Total Amount	0%	0%	97%	3%	100%

Based on Dun and Bradstreet demographic information, approximately 1% and 6% of business establishments are located in low- and moderate-income tracts within the bank's assessment area, respectively. As indicated in the preceding chart, none of the sampled commercial/agricultural loans were extended in low- or moderate-income geographies. However, as mentioned above, all of the low- and moderate-income census tracts are located in the City of Newport News in which a number of bank institutions compete with James River Bank/Colonial for commercial loan customers. Nonetheless, the

bank's lending in these geographies is somewhat low.

Overall, the bank's geographic distribution of lending is considered adequate when compared to 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. 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 activities.