

**PUBLIC DISCLOSURE**

May 16, 2005

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Hanover Bank

2897763

7271 Hanover Green Drive

Mechanicsville, Virginia 23111

**Federal Reserve Bank of Richmond**

**P. O. Box 85029**

**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.

**TABLE OF CONTENTS**

Institution's CRA Rating.....	1
Description of Institution.....	1
Description of Assessment Area.....	1
Conclusions.....	3

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**INSTITUTION'S CRA RATING:** This institution is rated satisfactory.

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 bank's assessment area.
- A majority of the bank's lending is inside its assessment area.
- Lending to borrowers of different incomes and to businesses with annual revenues of \$1 million or less is considered reasonable using various proxies for demand.
- The distribution of lending by income level of geography is considered reasonable given the bank's location and area demographics.
- There have been no complaints regarding the bank's CRA performance since the previous evaluation.

### **DESCRIPTION OF INSTITUTION**

Hanover Bank is headquartered in Mechanicsville, Virginia. The bank operates four branch offices in Mechanicsville (2) and Ashland (2), Virginia. Hanover Bank also maintains an administration office in Mechanicsville. The institution is a subsidiary of Eastern Virginia Bankshares, Inc. (EVB), a multi-bank holding company. Hanover Bank has partial ownership in a mortgage subsidiary, EVB Mortgage, LLC. Equal ownership interest in EVB Mortgage is shared by EVB subsidiaries, Bank of Northumberland and Southside Bank. The bank is focused primarily on commercial activities but provides both commercial and consumer deposit and loan products including business lines of credit, term loans for fixed assets, home equity lines of credit, and automobile loans. The mortgage company offers a variety of residential real estate transactions that are primarily sold in the secondary market.

Hanover Bank reported assets of \$109.9 million as of March 31, 2005, of which 83% were loans. The loan portfolio, as of March 31, 2005, was comprised of 29.9% one-to four-family real estate secured, 49.8% commercial real estate and farm, 10.7% commercial and agriculture, and 9.6% consumer loans. Small business and consumer real estate lending loans were identified as primary credit products offered by the bank. The institution's previous CRA rating, dated May 14, 2001, was Satisfactory.

### **DESCRIPTION OF ASSESSMENT AREA**

The institution's assessment area consists of all of Hanover County and portions of Henrico and King William Counties, Virginia. This assessment area is part of the Richmond - Petersburg Metropolitan Statistical Area (MSA). The assessment area has 38 census tracts. For the year 2003, the area included one low-income, eight moderate-income, 21 middle-income and eight upper-income census tracts. Recent changes to the MSA were made in 2004 which slightly altered the demographics of the assessment. Currently, the area includes one low-income, seven moderate-income, 23 middle-income, and seven upper-income.

According to the 2000 census data, this assessment area has a population of 177,353 and a median housing value of \$118,113. The owner-occupancy rate for the market is 72.1%, which is higher than both the 2003 MSA level of 63.9% and the 2004 MSA level of 64.6%. The percentage of families living below the poverty level in the assessment area is 4.9%, which is lower than both the 2003 MSA level of 6.8% and the 2004 MSA level of 6.9%. The 2003 and 2004 median family incomes for the MSA are \$63,800 and \$63,100, respectively.

The following tables provide 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. Information is provided for both 2003 and 2004 due to recent changes in the metropolitan assessment area which slightly altered the demographics between the two years.

2003 Assessment Area Demographics

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	17.5%	18.9%	24.8%	38.8%	100%
Percentage of Population Residing in Geographies by Income Level	2.1%	20%	51.2%	26.7%	100%
Percentage of Owner-Occupied Units by Income Level of Geography	1.1%	14.4%	55.5%	29%	100%
Percentage of Businesses in Geographies by Income Level	1.4%	17.2%	50.1%	31.3%	100%
Percentage of Families Below the Poverty Level	31.7%	8.6%	4%	2%	N/A

2004 Assessment Area Demographics

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	17.1%	18.8%	24.8%	39.3%	100%
Percentage of Population Residing in Geographies by Income Level	2.2%	18.2%	57.6%	22%	100%
Percentage of Owner-Occupied Units by Income Level of Geography	1.1%	12.6%	62.5%	23.8%	100%
Percentage of Businesses in Geographies by Income Level	1.3%	12.9%	57.7%	28.1%	100%
Percentage of Families Below the Poverty Level	31.7%	8.9%	4%	1.7%	N/A

The assessment area is located directly adjacent to the city of Richmond, Virginia, in the east-central portion of the Commonwealth. Employment opportunities exist in both public and private sectors. Richmond is the capital of the Commonwealth, providing numerous jobs in local, state, and federal government agencies. There are also a variety of industries in the area including information technology,

healthcare, tobacco processing, banking, finance, and insurance. As of March 2005, the unemployment rates for Hanover, Henrico, and King William Counties, were 2.6%, 3.1%, and 3.2%, respectively, which is comparable to the MSA's rate of 3.6% and the Commonwealth's rate of 3.4%.

A local business association director was contacted during the examination to assist in evaluating the bank's CRA performance. The contact indicated that local financial institutions are adequately serving the credit needs of the community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**LOAN-TO-DEPOSIT RATIO**

During the 16-quarter period ending March 31, 2005, the bank's average loan-to-deposit ratio was 90.9%. The loan-to-deposit ratio for the quarter ending March 31, 2005, was 95.5%. The quarterly average loan-to-deposit ratios for all banks headquartered in metropolitan areas of Virginia and of similar asset size to Hanover Bank ranged from 75.5% to 81.3% for the 15-quarter period ending December 31, 2004. Since June 30, 2001, assets, loans and deposits have increased by 167.1%, 217.5%, and 192%, respectively. Hanover Bank's loan-to-deposit ratio 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, 91 sampled small business loans and 150 Home Mortgage Disclosure Act (HMDA) loans, as reported on the bank's 2003 and 2004 Loan Application Registers (LAR), were reviewed. The sample of 91 small business loans was selected from approximately 150 small business loans extended throughout 2004. 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	146	95	241
Percentage of Total Loans	60.6%	39.4%	100%
Total Amount of Loans (000's)	\$19,411	\$17,742	\$37,153
Percentage of Total Amount	52.2%	47.8%	100%

The bank is primarily a commercial lender. As a commercial lender, the bank relies heavily on business loan referrals throughout the metropolitan area. This contributes to the somewhat high level of lending outside the assessment area. The bank, however, originates a majority of its loans within its assessment area. The institution's lending level is considered responsive to community credit needs.

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

The following tables present data about the bank's lending to borrowers of different income levels and businesses of different sizes. To evaluate lending penetration, an analysis was conducted of 65 mortgage loans originated by the bank during 2003 and 53 sampled small business loans originated in 2004 within the bank's assessment area. A narrative following the table depicts an analysis of 28 mortgage loans

originated during 2004 within the bank's assessment area. Area demographics and 2003 aggregate data (2004 aggregate data is not yet available) are used as proxies for demand. Aggregate small business and real estate lending data includes all reporting institutions that originated such loans within the bank's assessment area during 2003, as required by the CRA and HMDA. Hanover Bank is not subject to CRA reporting requirements; consequently, the bank's small business lending activity is not included within the aggregate information.

Of the 65 HMDA loans originated during 2003 by Hanover Bank within the assessment area, nine did not contain income data and are not included in the analysis.

Distribution of 2003 HMDA Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	5	5	16	30	56
Percentage of Total Loans	8.9%	8.9%	28.6%	53.6%	100%
Total Amount of Loans (000's)	\$351	\$606	\$1,630	\$3,996	\$6,583
Percentage of Total Amount	5.3%	9.2%	24.8%	60.7%	100%

Of the 56 loans reviewed, 8.9% were extended to both low-income and moderate-income borrowers. The level of lending to low-income borrowers is slightly higher than the aggregate HMDA data, which indicates that where income was known, 8.8% of all loans reported by HMDA reporters were to low-income borrowers. The level of lending to moderate-income borrowers, however, is significantly lower than the aggregate level of 25.5%. The lending for this institution is also less than the proportion of low- and moderate-income families within the assessment area denoted as 17.5% and 18.9%, respectively.

An analysis of 2004 HMDA data reveals that of the 28 loans originated by the bank, two did not contain income data. Of the 26 loans reviewed, five (19.2%) and seven (26.9%) were extended to low- and moderate-income borrowers, respectively. This level of lending exceeds the proportion of low- and moderate-income families within the assessment area of 17.5% and 18.9%, respectively.

Overall, the bank's level of HMDA lending to borrowers of different income levels in this market is considered reasonable.

Distribution of Loans by Size of Business

	Revenues $\leq$ \$1 Million	Revenues $>$ \$1 Million	Total
Total Number of Loans	26	27	53
Percentage of Total Loans	49.1%	50.9%	100%
Total Amount of Loans (000's)	\$1,009	\$7,547	\$8,556
Percentage of Total Amount	11.8%	88.2%	100%

As indicated in the table, 49.1% of the bank's business loans were to entities with revenues of \$1 million or less. Based on recent D&B demographic data, 82.5% of businesses within the assessment area have annual revenues of \$1 million or less. According to 2003 aggregate small business data, at least 32.5% 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 revenues in excess of \$1 million per annum or revenue data was not reported. This level of business lending is considered reasonable.

Overall, the institution's level of lending to businesses with revenues of \$1 million or less and to borrowers of different income levels is considered reasonable when compared with aggregate data and area demographics.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The 65 real estate originated by the bank during 2003 and 53 small business loans extended during 2004 within the institution's market area were analyzed to determine the level of lending among geographies of varying income levels. An analysis of 28 HMDA loans originated during 2004 was also conducted and is discussed below.

Distribution of 2003 HMDA Loans in Assessment Area  
by Income Level of Census Tract

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	2	34	29	65
Percentage of Total Loans	3.1%	52.3%	44.6%	100%
Total Amount of Loans (000's)	\$133	\$3,678	\$4,034	\$7,845
Percentage of Total Amount	1.7%	46.9%	51.4%	100%

As illustrated in the chart above, no loans were extended in the low-income area and two loans were extended in moderate-income areas, representing 3.1% of total lending. The 2003 aggregate data shows that .5% of HMDA loans were extended in low-income areas and 11.6% were in moderate-income areas. Area demographics indicate that the percentages of owner-occupied housing units in low- and moderate-income tracts are 1.1% and 14.4%, respectively.

An analysis of 28 HMDA loans originated during 2004, within the bank's assessment area, revealed no loans extended in the low-income tract and 7.1% of total lending in moderate-income tracts. Area demographics indicate that the percentages of owner-occupied housing units in low- and moderate-income tracts are 1.1% and 12.6%, respectively.

When considering the various proxies for loan demand, the bank's overall level of HMDA lending in low- and moderate-income areas is considered marginally reasonable.

Distribution of Small Business Loans  
by Income Level of Census Tract

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	1	6	32	14	53
Percentage of Total Loans	1.9%	11.3%	60.4%	26.4%	100%
Total Amount of Loans (000's)	\$10	\$705	\$6,375	\$1,466	\$8,556
Percentage of Total Amount	.2%	8.2%	74.5%	17.1%	100%

The bank's small business lending in low-income areas (1.9%) exceeds both the percentage of area businesses located in such areas (1.4%) and the 2003 aggregate data (.7%). Small business lending in moderate-income areas (11.3%) is slightly lower than both the percentage of area businesses located in moderate-income areas (17.2%) and aggregate data (14.3%). Overall, small business lending within low- and moderate-income areas 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.