

**PUBLIC DISCLOSURE**

August 15, 2005

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

River City Bank

3267185

6127 Mechanicsville Turnpike

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.

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## 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 reasonable in relation to demand for credit in the bank's assessment area.
- A majority of the institution's small business and consumer loans reviewed during the evaluation were originated within the bank's assessment area.
- Lending to borrowers of different incomes and to businesses with annual revenues of \$1 million or less is considered excellent using various proxies for demand.
- The distribution of lending by income level of geography is considered reasonable given area demographics.
- There have been no complaints regarding the bank's CRA performance since its inception.

### **DESCRIPTION OF INSTITUTION**

River City Bank (RCB) is headquartered in Mechanicsville, Virginia, and operates one full-service banking office in Mechanicsville, Virginia. The bank does not currently have any subsidiary or affiliate relationships. RCB is a de novo institution which commenced operations on July 1, 2004. This is the institution's first CRA evaluation.

As of June 30, 2005, RCB reported assets of approximately \$37.9 million, of which 64.9% were loans. Various deposit and loan products are available through the institution including consumer, business, residential mortgage, and home equity loans and lines of credit. The bank's portfolio consists of 40% one- to four-family real estate secured, 44.5% commercial real estate, 11.7% commercial, and 3.8% consumer loans. Based on the institution's current market strategy and recent loan volume, commercial and consumer loans were identified as primary credit products offered by the bank.

### **DESCRIPTION OF ASSESSMENT AREA**

RCB's assessment area includes Hanover County, Virginia, in its entirety. Hanover County is located in the central portion of the commonwealth, adjacent to the city of Richmond, Virginia, and is a part of the Richmond Metropolitan Statistical Area (MSA). The assessment area contains 18 census tracts, of which two are moderate-income, nine are middle-income, and seven are upper-income geographies. There are no low-income geographies in the assessment area. According to the 2000 census data, the assessment area has a population of 86,320 and a median housing value of \$146,787. The owner-occupancy rate for the assessment area is 81.5%, which is higher than both the commonwealth's level of 63.3% and the MSA level of 64.6%. The poverty rate for the assessment area of 2.5% is lower than both the MSA at 6.9% and the commonwealth at 7%. The 2004 median family income for the Richmond MSA is \$63,100.

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.

Assessment Area Demographics

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Area Families by Income Level	11%	15.1%	23.3%	50.6%	100%
Percentage of Population Residing in Census Tracts by Income Level of Census Tract	N/A	8.7%	46%	45.3%	100%
Percentage of Owner-Occupied Housing Units by Income Level of Census Tract	N/A	4.9%	48.9%	46.2%	100%
Percentage of Businesses in Census Tracts by Income Level of Census Tract	N/A	6.9%	47.1%	46%	100%
Percentage of Families Below Poverty Rate by Income Level of Census Tract	N/A	5.6%	2.8%	1.7%	

The largest sectors of employment in the county include the education and health services sector as well as the trade, transportation, and utilities sector. Specifically, the Hanover County School System is the largest employer. Additionally, SuperValu Eastern Region (food distributor), Bon Secours Memorial Regional Medical Center (hospital/medical center), Tyson Foods (poultry processing), and Paramount's Kings Dominion (entertainment) provide significant employment opportunities for the area. Many residents of Hanover County commute to the bordering city of Richmond for jobs in the banking, insurance, medical, pharmaceutical, and tobacco industries. The July 2005 unemployment rate for Hanover County at 2.8%, is lower than both the commonwealth and the MSA at 3.5% and 3.7%, respectively.

A local trade official was recently contacted 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**

The bank's loan-to-deposit ratio, as of June 30, 2005, is 84.8% and averaged 73.5% for the four-quarter period ending June 30, 2005. During the same period, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Virginia and of similar asset size to RCB ranged from 70% to 79.3%. From September 30, 2004 to June 30, 2005, bank assets, loans, and deposits have increased by 110.3%, 566.3%, and 209.8%, respectively. Such growth is typical of a de novo bank and is attributed to the bank developing and expanding its customer base. Given the institution's recent entry into the market, current size, growth potential, and financial capacity, the bank's loan-to-deposit ratio is considered reasonable.

**LENDING IN ASSESSMENT AREA**

To determine the institution's volume of lending within its assessment area, 72 consumer loans (non-real estate) and 61 small business loans were reviewed. The loans selected represent all small business loans and all consumer loans made by the institution since its inception in July 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	74	59	133
Percentage of Total Loans	55.6%	44.4%	100%
Total Amount of Loans (000's)	\$8,089	\$7,375	\$15,464
Percentage of Total Amount	52.3%	47.7%	100%

As illustrated in the preceding chart, a majority of the number (55.6%) and dollar amount of loans (52.3%) were provided to borrowers and businesses located in the institution's assessment area. The institution's level of lending within the assessment area is considered responsive to community credit needs.

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

To evaluate the bank's level of lending to borrowers of varying income levels, the 41 consumer and 33 small business loans extended within the bank's assessment area were analyzed. Area demographics, 2004 aggregate data, and D&B business 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 2004, as required by the CRA. RCB is not subject to CRA reporting requirements at this time; 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 Consumer Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	16	8	3	14	41
Percentage of Total Loans	39%	19.5%	7.3%	34.2%	100%
Total Amount of Loans (000's)	\$143	\$238	\$46	\$1,897	\$2,324
Percentage of Total Amount	6.2%	10.2%	2%	81.6%	100%

The institution's level of lending to low- and moderate-income borrowers (39% and 19.5%, respectively) is considered excellent when compared to the percentage of such families (11% low-income and 15.1% moderate-income) located within the assessment area.

Distribution of Loans by Size of Business

	Revenues $\leq$ \$ 1 Million	Revenues $>$ \$ 1 Million	Total
Total Number of Loans	33	0	33
Percentage of Total Loans	100%	0%	100%
Total Amount of Loans (000's)	\$5765	\$0	\$5765
Percentage of Total Amount	100%	0%	100%

As indicated in the table, 100% of the bank's business loans were to entities with revenues of \$1 million or less. Based on recent D&B demographic data, 84.7% of businesses within the assessment area have annual revenues of \$1 million or less. According to 2004 aggregate small business data, at least 37.4% of all small business loans reported within the market area were to businesses with annual 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. When compared to area demographics and aggregate data, the bank's level of small business lending is considered excellent.

Overall, RCB's lending to borrowers of different incomes and to businesses of different sizes is considered excellent when using aggregate business data and area demographics as proxies for loan demand.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans within the assessment area is reflected in the following tables. Area demographics, 2004 aggregate data, and D&B business information are used as proxies for demand. As previously noted, there are no low-income tracts in the assessment area.

Distribution of Consumer Loans in Assessment Area by Income Level of Geography

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	3	16	22	41
Percentage of Total Loans	7.3%	39%	53.7%	100%
Total Amount of Loans (000's)	\$24	\$749	\$1,550	\$2,323
Percentage of Total Amount	1%	32.3%	66.7%	100%

As illustrated in the chart above, 7.3% of consumer loans were made in moderate-income areas in the assessment area. Area demographics indicate that the percentage of population residing in moderate-income tracts is 8.7%. The bank's level of lending in moderate-income areas is considered reasonable.

Distribution of Loans by Size of Business

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	15	18	33
Percentage of Total Loans	0%	45.5%	54.5%	100%
Total Amount of Loans (000's)	\$0	\$2,352	\$3,414	\$5,766
Percentage of Total Amount	0%	40.8%	59.2%	100%

Of the 33 small business loans, none were extended within the assessment area's two moderate-income tracts. A review of D&B data shows that 6.9% of the area's businesses are located in the moderate-income tracts. According to 2004 aggregate data, 5.1% of all reported small business loans were extended to entities within the moderate-income tracts. An evaluation of the assessment area indicates that one of the two moderate-income tracts is located a substantial distance from the bank's one office. Considering the relatively limited lending opportunities in the moderate-income census tracts, the bank's location, and the small number of loans reviewed, the lack of lending in such areas is not considered unreasonable.

Overall, the level of lending in geographies of varying income levels is considered reasonable when compared to available data.

**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.