

PUBLIC DISCLOSURE

March 17, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Princess Anne Bank

05512929

P.O. Box 8850

Virginia Beach, Virginia 23450

Federal Reserve Bank of Richmond

P. O. Box 27622

Richmond, Virginia 23261

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 institutions 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 institutions record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Princess Anne Bank, Virginia Beach, Virginia, prepared by the Federal Reserve Bank of Richmond, the institutions supervisory agency, as of March 17, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTIONS CRA RATING: This institution is rated Satisfactory.

The bank's loan-to-deposit ratio is considered reasonable given its financial capacity and recent branch acquisitions. A substantial majority of loans sampled during the evaluation were extended to borrowers or businesses of the local community. Furthermore, the level of lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance. The penetration of loans throughout geographies of different income levels appears reasonable in relation to area demographics.

The following table indicates the performance level of Princess Anne Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Princess Anne Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the prior examination.		

DESCRIPTION OF INSTITUTION

Princess Anne Bank is headquartered in Virginia Beach, Virginia, and currently operates six offices within the city. On November 1, 1995, the bank acquired three branch offices with deposits of approximately \$81 million from an affiliate of their holding company, CENIT Bancorp, Incorporated. This acquisition, which did not include the transfer of existing loans, nearly doubled the institutions outstanding deposits.

As of December 1996, the bank had approximately \$217 million in assets, of which 53% were loans. Management has focused its lending efforts primarily on meeting the credit needs of local businesses. However, various loan and deposit products are available through the bank including loans for construction, residential mortgage, commercial, and consumer purposes. The composition of the loan portfolio as of December 31, 1996, was as follows: 59% real estate secured (business and consumer), 31% commercial, and 9% consumer. Based on the number of loans originated during the prior year, consumer home equity lines of credit and small business loans were identified as principal credit products offered by the bank. Princess Anne Bank's previous CRA rating was satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The institutions assessment area includes portions of the Cities of Virginia Beach and Norfolk, Virginia. Listed below are the census tracts included in the bank's market for each of the cities.

<u>City of Virginia Beach</u>	<u>City of Norfolk</u>
400.98 to 430.02	67.00
434.00 to 448.06	68.00
454.04 to 454.09	69.01
454.11	69.02
454.13 to 462.10	

The assessment area consists of 63 census tracts, of which 62 are populated. Of the populated geographies, one is low-income, ten are moderate-income, 26 are middle-income, and 25 are upper-income. The low- and moderate-income areas within the bank's market are primarily located in close proximity to the community's four military installations (See Appendix). The assessment area is included within the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area (MSA) and has a population of 381,887 residents according to 1990 census data. The 1996 median family income for the MSA is \$42,100.

The following table provides assessment area demographics by the income level of families and the percentage of local residents living in tracts of varying incomes. As illustrated by the chart, a majority of families within the market (71%) are middle- and upper-income, and 88% of the population resides in middle- and upper-income census tracts.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	11%	18%	25%	46%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	1%	11%	49%	39%	100%

The local economy is well diversified, and primary employment opportunities include the military, construction and real estate, agriculture, retail and wholesale trade, light manufacturing, and tourism. Virginia Beach, the Commonwealth's most populous city, has experienced a sustained growth rate primarily due to the large influx of military families which have moved into the area. As of January 1997, the unemployment rates for Virginia Beach and Norfolk were 3.9% and 6.4%, respectively, compared to the Commonwealth's jobless rate of 4.5%.

A community contact was performed with a local government official to further assist in evaluating the bank's CRA performance. The contact indicated that while there is a demand for additional small business loans in the area, local financial institutions have been active in meeting community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's average loan-to-deposit ratio for the previous five quarters is 45%. The average loan-to-deposit ratio for banks headquartered in metropolitan areas of Virginia and of similar asset size to Princess Anne Bank is 75%. While the bank's average loan-to-deposit ratio is significantly lower than similarly situated financial institutions, the November 1995 branch acquisition approximately doubled deposits and consequently, diluted the institution's loan-to-deposit ratio. Prior to the transfer of the three new branches, the bank's loan-to deposit ratio was 66%. Since the acquisition, this ratio has steadily increased from 33% in December 1995 to 69% in December 1996. Therefore, Princess Anne Bank's loan-to deposit ratio is considered reasonable given the institution's financial capacity, size, and current economic conditions.

LENDING IN ASSESSMENT AREA

A review of 132 loans was conducted to determine the volume of lending within the institution's assessment area. The sample included 56 consumer home equity lines of credit and 76 business loans. As illustrated by the following table, a substantial majority of the number and dollar amounts of credit extensions have been provided to borrowers and businesses of the assessment area.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	114	18	132
Percentage of Total Loans	86%	14%	100%
Total Amount of Loans (000's)	\$9,634	\$2,767	\$12,401
Percentage of Total Amount	78%	22%	100%

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

The following two charts illustrate the distribution of the sampled business and consumer loans extended within the assessment area to businesses of different sizes and to borrowers of different income levels.

Distribution of Loans by Size of Business

	Revenues \leq \$1 Million	Revenues $>$ \$1 Million	Total
Total Number of Loans	48	14	62
Percentage of Total Loans	77%	23%	100%
Total Amount of Loans (000's)	\$5,032	\$2,533	\$7,565
Percentage of Total Amount	67%	33%	100%

The high percentage of the number and dollar amount of loans provided to business with gross revenues of \$1 million or less demonstrates the bank's responsiveness to small business credit needs.

Distribution of Loans by Income Level of Borrower

Home Equity Lines of Credit

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	1	0	10	41	52
Percentage of Total Loans	2%	0%	19%	79%	100%
Total Amount of Loans (000's)	\$10	\$0	\$227	\$1,831	\$2,068
Percentage of Total Amount	0%	0%	11%	89%	100%

The volume of equity lines extended to low- and moderate-income residents (2%) is significantly lower than the representation of such families in the market area (29%).

As previously mentioned, the bank has primarily focused its lending efforts on meeting the credit needs of local businesses. Consumer loans are customarily provided as an accommodation to existing business customers. Consequently, the majority of consumer loans extended are to upper-income residents.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among various census tracts within the institutions assessment area. The following charts illustrate the distribution of sampled loans according to the income level of the census tract. As previously mentioned, the assessment area includes only one populated low-income census tract. This tract, however, contains no families or households.

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

Business Loans

	Moderate-Income	Middle- Income	Upper-Income	Total
Total Number of Loans	4	27	31	62
Percentage of Total Loans	6%	44%	50%	100%
Total Amount of Loans (000's)	\$214	\$3,682	\$3,669	\$7,565
Percentage of Total Amount	3%	49%	48%	100%

Home Equity Lines of Credit

	Moderate-Income	Middle- Income	Upper-Income	Total
Total Number of Loans	0	12	40	52
Percentage of Total Loans	0%	23%	77%	100%
Total Amount of Loans (000's)	\$0	\$333	\$1,736	\$2,069
Percentage of Total Amount	0%	16%	84%	100%

The level of lending to businesses (6%) and home equity borrowers (0%) residing in moderate-income census tracts is lower than the proportion of the population residing in such geographies (11%). As previously mentioned, most of the moderate-income census tracts within the assessment area are situated near four military facilities (See Appendix), and many of these potential borrowers are serviced by military base credit unions. In addition, the owner-occupancy rate for moderate-income geographies is only 32%. This rate is relatively low when compared to owner-occupancy rates of 53% and 74% for middle- and upper-income areas, respectively. Consequently, demand for home equity lines of credit in moderate-income census tracts is limited. Given market demographics and the banks commercial lending focus, penetration among census tracts of various income levels is considered reasonable.

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 Equal Credit Opportunity Act's Regulation B and the Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.