

**PUBLIC DISCLOSURE**

August 11, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Bank of Suffolk

05512795

101 East Washington Street

Suffolk, Virginia 23434

**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.

## 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 Bank of Suffolk, Suffolk, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of August 11, 1997. 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 exceeds standards for satisfactory performance given its financial capacity and demand for credit in the area. A majority of loans sampled during the examination were extended within the assessment area, and a significant portion were to low- and moderate-income borrowers. The penetration of loans throughout the market meets expectations for a satisfactory performance given the institution's size, branch locations, and demographics of the area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Bank of Suffolk</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**

The Bank of Suffolk operates six branches located in Suffolk, Virginia. As of June 30, 1997, the bank's total assets equaled \$107 million, of which 72% were loans. Various deposit and loan products are available through the institution, including loans for residential mortgage, consumer, business, and agricultural purposes. The composition of the loan portfolio, as of June 30, 1997, is as follows: 69% real estate secured (consumer and business), 16% commercial, 13% consumer and 2% other. Based on the number of loans extended during the previous six months, consumer unsecured loans were identified as a principal credit product. The institution's previous CRA rating was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area consists of the City of Suffolk, located in the southeastern corner of the Commonwealth. Although the city is part of the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area (MSA), it remains primarily rural. According to 1990 census data, the population of the local community is 52,141. The assessment area includes 13 census tracts, of which two are low-income, two are moderate-income, eight are middle-income, and one is upper-income. Several large businesses in the area provide employment opportunities including: Obici Hospital, QVC Network, Allied Colloids Incorporated, Lipton Tea Company, Planters Peanuts, and Nestle Beverage Company. Agricultural related employment opportunities continue to exist primarily in peanuts, soy beans, corn, cotton, and livestock. As of May 1997, the city's unemployment rate of 7.4% was substantially higher than the Commonwealth's rate of 4.2%. The 1996 median family income for the MSA was \$42,100.

A community contact was made with a local government official to further assist in evaluating the bank's CRA performance. The contact indicated local financial institutions have been active in meeting the credit needs of the community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**LOAN-TO-DEPOSIT RATIO**

During a six quarter period ending March 1997, the average loan-to-deposit ratios for institutions headquartered in metropolitan statistical areas of Virginia and of similar asset size to the Bank of Suffolk ranges from 71% to 75%. The institution's average loan-to-deposit ratio for the previous six quarters is 81%. Since the previous evaluation, loan growth (18%) has outpaced deposit growth (11%). The bank's level of lending is considered highly responsive to area loan demand and exceeds standards for satisfactory performance.

**LENDING IN ASSESSMENT AREA**

To determine the institution's volume of lending within the assessment area, a sample of 75 of the 112 unsecured consumer loans extended during the previous six months and 146 of the 161 residential real estate loans reported under the Home Mortgage Disclosure Act (HMDA) was reviewed. The lending distribution of the sampled loans 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	173	48	221
Percentage of Total Loans	78%	22%	100%
Total Amount of Loans (000's)	\$5,175	\$1,737	\$6,912
Percentage of Total Amount	75%	25%	100%

As illustrated above, a majority of the number and dollar amounts of the sampled loans were provided to residents of the assessment area.

**LENDING TO BORROWERS OF DIFFERENT INCOMES**

The following charts illustrate the distribution of the 60 consumer unsecured loans and the 111 HMDA loans extended in the assessment area by income level of borrower. Two loans originated within the assessment area for multi family purpose were not analyzed under borrower income distribution.

Distribution of Loans by Income Level of Borrower

Consumer Unsecured Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	29	10	9	12	60
Percentage of Total Loans	48%	17%	15%	20%	100%
Total Amount of Loans (000's)	\$85	\$47	\$48	79%	\$259
Percentage of Total Loans	33%	18%	19%	30%	100%

HMDA Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	19	26	28	38	111
Percentage of Total Loans	17%	24%	25%	34%	100%
Total Amount of Loans (000's)	\$369	\$694	\$1,059	\$2,641	\$4,763
Percentage of Total Loans	8%	15%	22%	55%	100%

As a means of comparison, the following chart depicts the distribution of assessment area families according to low-, moderate-, middle-, and upper-income levels.

Percentage of Families in Assessment Area by Income Level

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Percentage of Families</b>	26%	18%	22%	34%	100%

As illustrated in the charts, 65% and 41%, respectively, of the consumer unsecured and HMDA loans were extended to low- and moderate-income borrowers, while 44% of the assessment area families are either low- or moderate-income. This level of lending is considered to exceed satisfactory performance standards.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The review of loan files also included an analysis of lending among census tracts within the institution's assessment area. The following charts depict the geographic distribution of the sampled loans extended to residents of the assessment area.

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

Consumer Unsecured Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	5	14	40	1	60
<b>Percentage of Total Loans</b>	8%	23%	67%	2%	100%
<b>Total Amount of Loans (000's)</b>	\$6	\$23	\$222	\$8	\$259
<b>Percentage of Total Loans</b>	2%	9%	86%	3%	100%

HMDA Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	8	6	93	6	113
<b>Percentage of Total Loans</b>	7%	5%	83%	5%	100%
<b>Total Amount of Loans (000's)</b>	\$295	\$239	\$4,126	\$256	\$4,916
<b>Percentage of Total Loans</b>	6%	5%	84%	5%	100%

In the bank's assessment area, 13% of the population resides in the low-income census tracts, 12% in moderate-income tracts, 67% in middle-income tracts, and 8% in upper-income tracts. As depicted in the tables, 31% of the consumer unsecured and 12% of the HMDA loans were extended to borrowers residing in low- or moderate-income census tracts. The geographic distribution of loans appears reasonable given the bank's resources and area demographics.

**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.