

PUBLIC DISCLOSURE

November 2, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

King George State Bank, Inc.
05511482
10045 Kings Highway
King George, Virginia 22485

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 King George State Bank, Inc., King George, Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency, as of November 2, 1998. 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 Outstanding.

Overall, the bank has a satisfactory record of meeting the requirements of the Community Reinvestment Act (CRA). The bank's loan-to-deposit ratio is considered more than reasonable given its financial capacity and demand for credit in the

area. A majority of loans sampled during the examination were provided to residents and businesses of the assessment area, and a substantial portion of these loans were to low- and moderate-income borrowers and to businesses with revenues of \$1 million or less. The geographic distribution of the sampled loans is considered highly responsive in meeting the credit needs of the assessment area. The institution has also committed \$100,000 to the Virginia Community Development Corporation which serves the housing needs of low- and moderate-income individuals throughout the Commonwealth of Virginia.

DESCRIPTION OF INSTITUTION

King George State Bank, Inc., is headquartered in King George, Virginia, and operates two full-service branches in King George and Colonial Beach, Virginia. The Colonial Beach branch was purchased from Signet Bank in February 1998. The institution is a wholly-owned subsidiary of Union Bankshares Corporation, a multi-bank holding company located in Bowling Green, Virginia. As of June 30, 1998, the bank reported total assets of \$73 million, of which 64% were loans. Various deposit and loan products are available through the institution including loans for consumer, business, residential mortgage, and agricultural purposes. The loan portfolio as of June 30, 1998, was comprised of 71% real estate (consumer and business), 19% commercial/agriculture, and 10% consumer. During 1996 and 1997, the bank originated 35 and 30 real estate loans, respectively, under the Home Mortgage Disclosure Act. Based on the number and dollar amounts of loans extended during the previous nine months, commercial loans and consumer loans secured by motor vehicles were identified as the primary credit products offered by the bank. The institution’s previous CRA rating was outstanding.

DESCRIPTION OF ASSESSMENT AREA

The institution’s assessment area is defined as all of King George County and block numbering area (BNA) 9904.00 in Westmoreland County, Virginia. According to 1990 census data, the assessment area has a population of 18,543 and includes six BNAs. Three BNAs are considered moderate-income, and three are middle-income. There are no low- or upper-income geographies within the assessment area. King George County is part of the Washington, D. C. Metropolitan Statistical Area (MSA). The 1997 median family income for the MSA is \$70,300.

The following table provides demographic information for the assessment area by the income level of families and the percentage of population living in BNAs of varying income levels.

Assessment Area Demographics

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	25%	26%	25%	24%	100%

Percentage of Population Residing in BNAs by Income Level	N/A	46%	54%	N/A	100%
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The bank's assessment area is located in the northeastern portion of the Commonwealth situated between Fredericksburg, Virginia, and the Potomac River. This area is primarily rural but has experienced growth from the migration of people from the nearby Washington, D. C. area. The Dahlgren Naval Weapons Station is the largest employer in King George County and provides approximately 500 jobs. Additional employers include a power plant, farms, consulting firms, and service-related businesses. As of September 1998, the unemployment rates for King George and Westmoreland Counties were 2.0% and 4.8%, respectively. Virginia's jobless rate as of September 1998 was 3.2%.

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

During an eight-quarter period ending June 30, 1998, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Virginia and of similar asset size to King George State Bank, Inc., ranged from 69% to 74%. The bank's average loan-to-deposit ratio for the same eight-quarter period is 75%. Since September 1996, the institution has experienced loan growth of 40% and deposit growth of 45%. The 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, 89 of 171 consumer loans secured by motor vehicles extended during the previous six months and 63 of 157 commercial loans extended during the previous nine months were reviewed. 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	117	35	152
Percentage of Total Loans	77%	23%	100%
Total Amount of Loans (000's)	\$4,361	\$1,620	\$5,981
Percentage of Total Amount	73%	27%	100%

As illustrated above, a majority of the number and dollar amounts of loans were provided to residents and businesses of the assessment area. This level of lending in the assessment area is considered reasonable given the institution's size and branch locations.

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

A review of the 67 loans secured by motor vehicles and the 50 commercial loans extended within the assessment area was conducted to analyze borrower income and business revenue characteristics. The following charts illustrate the distribution of the sampled loans by borrower income level and by size of the business.

Distribution of Loans by Income Level of Borrower

Loans Secured by Motor Vehicles

	Low- Income	Moderate- Income	Middle Income	Upper- Income	Total
Total Number of Loans	35	12	9	11	67
Percentage of Total Loans	52%	18%	14%	16%	100%
Total Amount of Loans (000's)	\$240	\$99	\$88	\$103	\$530
Percentage of Total Amount	45%	19%	17%	19%	100%

Distribution of Loans by Size of Business

	Revenues \leq \$ 1 Million	Revenues $>$ \$ 1 Million	Total
Total Number of Loans	50	0	50
Percentage of Total Loans	100%	0%	100%
Total Amount of Loans (000's)	\$3,831	\$0	\$3,831
Percentage of Total Amount	100%	0%	100%

As illustrated above, 70% of the sampled consumer loans secured by motor vehicles were to low- and moderate-income borrowers. As previously mentioned, 51% of area families are considered to be low- (25%) and moderate-income (26%). Additionally, 100% of the commercial loans sampled were to business with revenues of \$1 million or less. This level of lending compares favorably to the 1997 aggregate small business data, in which 56% of all reportable small business loans within the assessment area were to businesses with revenues of \$1 million or less. Overall, the distribution of lending to

borrowers of different incomes and to businesses of different sizes demonstrates the bank's commitment to serving the credit needs of its local community.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of the sampled loan files also included an analysis of lending among BNAs of varying income levels within the assessment area. As previously mentioned, there are no low- or upper-income areas within the bank's market.

Distribution of Loans in Assessment Area by Income Level of BNA

Loans Secured by Motor Vehicles

	Moderate- Income	Middle- Income	Total
Total Number of Loans	32	35	67
Percentage of Total Loans	48%	52%	100%
Total Amount of Loans (000's)	\$209	\$321	\$530
Percentage of Total Amount	39%	61%	100%

Commercial Loans

	Moderate- Income	Middle- Income	Total
Total Number of Loans	34	16	50
Percentage of Total Loans	68%	32%	100%
Total Amount of Loans (000's)	\$2,481	\$1,350	\$3,831
Percentage of Total Amount	65%	35%	100%

As illustrated above, 48% of the sampled motor vehicle loans were made within moderate-income geographies. This level of lending compares favorably to the percentage of population (46%) residing in these areas. Of all 1997 aggregate small business loans reported within the assessment area, 44% were extended to businesses located in moderate-income areas. The volume of commercial loans extended in moderate-income areas (68%) is substantially higher than the comparative aggregate percentage. Overall, the geographic distribution of the sampled loans is considered more than reasonable.

INVESTMENTS AND SERVICES

Participating with other community banks, King George State Bank, Inc., has committed \$100,000 to the Virginia Community Development Corporation's Housing Equity Fund of Virginia III, L.P. This organization serves the housing needs of low- and moderate-income individuals throughout the Commonwealth of Virginia.

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.