

PUBLIC DISCLOSURE

November 17, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hanover Bank
05511762
7021 Mechanicsville Turnpike
Mechanicsville, Virginia 23111

Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261

<p>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.</p>

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 Hanover Bank, Mechanicsville, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of November 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's loan-to-deposit ratio exceeds standards for satisfactory performance, and a majority of the loans sampled during the examination were extended within the assessment area. The institution's level of lending to low- and moderate-income residents and the geographic distribution of lending appear reasonable given the institution's size, branch locations, and demographics of the area.

DESCRIPTION OF INSTITUTION:

Hanover Bank operates five branches located in Hanover and Henrico Counties, Virginia. As of September 30, 1997, the bank had total assets of \$145 million, of which 56% were loans. Various deposit and loan products are available through the institution, including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio, as of September 30, 1997, is as follows: 69% real estate secured

(consumer and business), 17% consumer, and 14% commercial. Based on the number of loans extended during the previous six months, motor vehicle loans were identified as a principal credit product. The institution's previous CRA rating was outstanding.

DESCRIPTION OF ASSESSMENT AREA

The institution's assessment area includes all of Hanover and Henrico Counties. According to the 1990 census, the assessment area has a population of 281,187 and is included within the Richmond-Petersburg Metropolitan Statistical Area (MSA). This market area contains 68 census tracts, of which 67 are populated. Of the populated geographies, one is low-income, nine are moderate-income, 38 are middle-income, and 19 are upper-income. The 1996 median-family income for the MSA is \$49,300.

The following table provides assessment area demographics by the income level of families and the percentage of population living in census tracts of varying income levels. As illustrated by this chart, a majority of families within the market (68%) are middle- and upper-income, and 86% 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	14%	18%	26%	42%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	1%	13%	53%	33%	100%

The local economy is stable and includes a diverse mixture of manufacturing, service, and Government employment opportunities. Many area residents also commute to the City of Richmond for employment. The current jobless rates for Hanover and Henrico Counties are 2.4% and 2.7%, respectively. These rates compare favorably to the current jobless rate for the Commonwealth of Virginia of 3.5%.

A community contact was recently made to further assist in evaluating the bank's CRA performance. According to the contact, assistance in purchasing affordable housing would further promote growth in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

During a six-quarter period ending September 1997, the quarterly average loan-to-deposit ratio for all banks headquartered in metropolitan areas of Virginia and of similar asset size to Hanover Bank ranged from 72% to 75%. The institution's average loan-to-deposit ratio for the same period is 82%. Since the previous evaluation, deposit growth (19%) has outpaced loan growth (10%). The bank's level of lending is considered 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 87 of the 157 motor vehicle loans extended during the previous six months was 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	63	24	87
Percentage of Total Loans	72%	28%	100%
Total Amount of Loans (000's)	\$589	\$216	\$805
Percentage of Total Amount	73%	27%	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 AND TO BUSINESSES OF DIFFERENT SIZES

The following chart illustrates the distribution of the 63 motor vehicle loans extended in the assessment area by income level of the borrower.

Distribution of Loans by Income Level of Borrower

	Low-Income	Moderate-Income	Middle- Income	Upper-Income	Total
Total Number of Loans	11	14	20	18	63
Percentage of Total Loans	17%	22%	32%	29%	100%
Total Amount of Loans (000's)	\$93	\$100	\$159	\$237	\$589
Percentage of Total Loans	16%	17%	27%	40%	100%

As depicted in the preceding chart, the percentage of motor vehicle loans (39%) extended to low- and moderate-income borrowers exceeds the proportion of such families (32%) residing within the assessment area. This level of lending meets standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of the sampled loans also included an analysis of lending among census tracts of varying income levels within the assessment area. The following chart illustrates the distribution of sampled loans according to income level of the census tract.

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

	Low-Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	7	40	16	63
Percentage of Total Loans	0%	11%	64%	25%	100%
Total Amount of Loans (000's)	\$0	\$56	\$356	\$177	\$589
Percentage of Total Loans	0%	10%	60%	30%	100%

While no loans were extended to borrowers residing in low-income areas, the bank's assessment area contains only one populated low-income area, and none of the bank's branches are located in or adjacent to this census tract. Only 1% of the assessment area population resides within this low-income geography. The bank's level of lending in moderate-income areas (11%) approximates the percentage of area families residing in such areas (13%). The distribution of loans sampled is considered to meet standards for a satisfactory performance.

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.