

**PUBLIC DISCLOSURE**

September 8, 1997

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Horizon Bank of Virginia  
05510942  
8414 Lee Highway  
Fairfax, Virginia 22031-1508

**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 The Horizon Bank of Virginia, Merrifield, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of September 8, 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 is considered reasonable given its financial capacity, location, and demand for credit in the area. A majority of loans sampled during the examination were extended to borrowers or businesses within the assessment area. The bank's percentage of loans provided to businesses with gross revenues of \$1 million or less demonstrates its responsiveness to small business credit needs. However, the institution's lending to mortgage borrowers of different income levels does not meet the standards for satisfactory performance due to limited lending activity to low- and moderate-income individuals. The loans sampled during the examination showed a reasonable distribution within low- and moderate-income census tracts.

**DESCRIPTION OF INSTITUTION**

The Horizon Bank of Virginia operates three offices in central Fairfax County, with the main office located in Merrifield, Virginia. As of June 30, 1997, the institution had total assets of \$110 million, of which 71% were loans. While traditionally a business oriented institution, Horizon Bank has recently begun to increase its mortgage lending. A variety of credit and deposit products is offered including loans for small business, home purchase, home improvement, and consumer purposes. The loan portfolio as of June 30, 1997, was comprised of the following: 68% real estate secured (consumer and business), 20% commercial, and 12% consumer. Based on the number of loans recently extended, commercial and real estate loans were identified as primary loan products. The previous CRA rating for Horizon Bank was satisfactory.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area is comprised of the City of Fairfax and all of Fairfax County, Virginia. This area is included within the Virginia portion of the Washington, D. C. Metropolitan Statistical Area (MSA) and contains 203 census tracts. One hundred and seventy-two of the 203 census tracts are populated, and of these, one is low-income, 12 are moderate-income, 75 are middle-income, and 84 are upper-income. The low-income tract and a majority of the moderate-income tracts are located in the eastern region of the county. Fort Belvoir comprises a large portion of this area. Due to the distance from this part of the county to bank offices, as well as competition from nearby credit unions, opportunities to service this area are limited. According to the 1990 census, the population within the market area is 838,206.

The following table provides assessment area demographics by the income level of families and the percentage of local residents living in census tracts of varying incomes. As illustrated by the chart below, a majority of families within the market (77%) are middle- and upper-income, and 92% of the population resides in middle- and upper-income census tracts.

	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>	<b>Total</b>
<b>Percentage of Area Families by Income Level</b>	10%	13%	24%	53%	100%
<b>Percentage of Population Residing in Census Tracts by Income Level</b>	<1%	7%	43%	49%	100%

The local economy is diverse and includes a mix of wholesale/retail, service, and technology-based industries. The area also continues to rely heavily on the Federal Government, tourism, and the military for employment opportunities. The per capita income for this region is among the highest in the nation as evidenced by the 1996 median-family income for the MSA of \$68,300. Recent unemployment rates for the market are 2.1% for the City of Fairfax and 2.7% for Fairfax County. The current jobless rate for the Virginia portion of the Washington, D. C. MSA and the Commonwealth of Virginia are 2.9% and 4.7%, respectively.

A community contact was recently made with a representative from a local housing organization to further assist in evaluating the bank's CRA performance. The contact indicated that additional financing options for the development of multifamily housing would benefit 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 ratio for banks headquartered in metropolitan areas of Virginia and of similar asset size to Horizon Bank ranges from 71% to 75%. Horizon Bank's average loan-to-deposit ratio for the previous six quarters is 72%. The bank's level of lending is responsive to area loan demand and is considered reasonable given the institution's size, location, financial capacity, and current economic conditions.

**LENDING IN ASSESSMENT AREA**

A review of all 65 of the business loans made during the previous 12 months and 50 of the 59 originated mortgage loans reported under the Home Mortgage Disclosure Act for 1996 was conducted to determine the volume of lending within the bank's assessment area. The lending distribution is represented in the following table.

**Comparison of Credit Extended Inside and Outside of Assessment Area**

Total Loans

	<b>Inside Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Total</b>
<b>Total Number of Loans</b>	88	27	115
<b>Percentage of Total Loans</b>	77%	23%	100%
<b>Total Amount of Loans (000's)</b>	\$14,149	\$6,821	\$20,970
<b>Percentage of Total Amount</b>	67%	33%	100%

As illustrated above, a majority of the number and dollar amounts of the sampled loans were extended to borrowers and businesses of the assessment area.

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

The following charts illustrate the distribution of the sampled business and mortgage loans provided within the assessment area to borrowers of different incomes and to businesses of different sizes.

Distribution of Loans by Size of Business

	Revenues ≤ \$1 Million	Revenues > \$1 Million	Total
<b>Total Number of Loans</b>	31	21	52
<b>Percentage of Total Loans</b>	60%	40%	100%
<b>Total Amount of Loans (000's)</b>	\$1,959	\$2,715	\$4,674
<b>Percentage of Total Amount</b>	42%	58%	100%

The percentage of the number (60%) of loans provided to businesses 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

Mortgage (HMDA) Loans

	Low-Income	Moderate- Income	Middle- Income	Upper- Income	Total
<b>Total Number of Loans</b>	0	2	5	28	35
<b>Percentage of Total Loans</b>	0%	6%	14%	80%	100%
<b>Total Amount of Loans (000's)</b>	\$0	\$270	\$1,084	\$7,601	\$8,955
<b>Percentage of Total Loans</b>	0%	3%	12%	85%	100%

The percentage of mortgage loans extended to low- and moderate-income borrowers (6%) is lower than the proportion of low- and moderate-income families (23%) within the assessment area. Furthermore, 14% of the mortgage loans were extended to middle-income borrowers while 24% of the assessment area families are middle-income.

The distribution of the mortgage loans by borrower income level indicates that a majority of the number and dollar amount were extended to upper-income individuals (80%) with an average loan amount of \$252,000. While a similar number of mortgage and commercial loans were extended during the sample period, the dollar amount of mortgage loans (\$12.6 million) is significantly higher than the commercial loan volume (\$8.4 million). Furthermore, consistent with the bank's recent focus on mortgage lending, the volume of such lending has grown substantially since 1995. Therefore, the banks volume of mortgage lending to low- and moderate-income borrowers is not reflective of local demographics and is considered unreasonably low.

**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 sampled loans according to income level of the census tract.

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

Business Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	0	3	26	23	52
<b>Percentage of Total Loans</b>	0%	6%	50%	44%	100%
<b>Total Amount of Loans (000's)</b>	0	\$258	\$2,417	\$1,999	\$4,674
<b>Percentage of Total Loans</b>	0%	6%	52%	42%	100%

Mortgage (HMDA) Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
<b>Total Number of Loans</b>	0	1	4	31	36
<b>Percentage of Total Loans</b>	0%	3%	11%	86%	100%
<b>Total Amount of Loans (000's)</b>	0	\$61	\$830	\$8,584	\$9,475
<b>Percentage of Total Loans</b>	0%	1%	9%	90%	100%

Although none of the sampled loans was extended within low-income census tracts, only one of the 172 populated tracts in the assessment area is considered low-income. Furthermore, less than 1% of the population of the assessment area resides in this tract, which is located a substantial distance from the bank's nearest branch. Six percent and 3%, respectively, of the sampled business and mortgage loans were provided to residents of moderate-income areas. Twelve moderate-income census tracts are included within the assessment area, and 7% of the market population resides in these census tracts. The geographic distribution of lending is considered reasonable given the bank's business strategy 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. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.