

**PUBLIC DISCLOSURE**  
**April 9, 2001**  
**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Bank of Northumberland, Inc.  
196426  
6358 Northumberland Hwy  
Heathsville, Virginia 22473

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

NOTE: This document is an evaluation of this 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. 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

**INSTITUTION'S CRA RATING:** This institution is rated Outstanding.

The bank's loan-to-deposit ratio is considered reasonable given its financial capacity and demand for credit in the community. A majority of loans reviewed during the examination were provided to residents and businesses of the bank's assessment area. Lending to borrowers of different income levels and businesses of different sizes is considered highly responsive to area credit needs. The distribution of lending by income level of block numbering areas (BNAs) is considered more than reasonable given the bank's resources, branch locations, and area demographics. The institution has not received any complaints pertaining to its CRA performance since the previous examination.

**DESCRIPTION OF INSTITUTION**

Bank of Northumberland, Inc., is headquartered in Heathsville, Virginia and operates two branch offices in Northumberland

County and one in Lancaster County, Virginia. The bank is a wholly owned subsidiary of Eastern Virginia Bankshares, Tappahannock, Virginia, which also owns one subsidiary member bank; Hanover Bank, Mechanicsville, Virginia. As of December 31, 2000, the bank reported total assets of \$152.9 million, of which 69.7% were loans. The institution offers a variety of credit and deposit products including loans for consumer, residential mortgage, business, and agricultural purposes. The loan portfolio as of December 31, 2000, was comprised of 71.6% real estate secured (including consumer and business), 17.1% commercial and agricultural, 11.3% consumer, and less than 1.0% other. Based on the institution's loan volume during the preceding year and current market strategy, consumer unsecured loans and business loans were identified as the primary credit products extended by the bank. The institution's previous CRA rating was satisfactory.

### **DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's assessment area encompasses all of Northumberland County and two block numbering areas (BNAs) in Lancaster County (9902 and 9903). The assessment area contains five geographies of which four are middle-income and one is upper-income. There are no low- or moderate-income BNAs within the market. According to the 1990 census data, the assessment area has a population of 18,080 and a median housing value of \$86,035. The owner-occupancy rate for the market is 59.6%, as compared to the state nonmetropolitan level of 65.1%. The percentage of assessment area families living below the poverty level is 9.2%, which is lower than the Virginia nonmetropolitan poverty rate of 11.5%. The 2000 median family income for non-metropolitan areas of Virginia is \$39,800.

The following table provides demographic data for the assessment area by the income level of families and the percentage of population living in BNAs of varying income levels. The table also displays the distribution of owner-occupied housing units and area poverty rates by income level of BNAs.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	19.4%	16.4%	20.6%	43.6%	100%
Percentage of Population Residing in BNAs by Income Level	N/A	N/A	78.2%	21.8%	100%
Percentage of Owner- Occupied Units by Income Level of BNA	N/A	N/A	79.0%	21.0%	100%
Percentage of Families Below Poverty Level by Income Level of BNA	N/A	N/A	10.4%	4.9%	N/A

The assessment area is primarily rural. Agriculture, commercial fishing/processing, and tourism support the local economy. Some of the area's largest employers include the county school system and government. Gannon Technologies, a record keeping facility, recently began operations in nearby Warsaw, Virginia, providing employment opportunities for residents of Northumberland County. Additionally, area residents commute to Tappahannock, Virginia, for employment opportunities. Due to the seasonal nature of the local industries, unemployment rates fluctuate during the year. As of February 2001, the unemployment rate for Virginia was 2.4%, which is considerably lower than 10.3% for Northumberland County, and 13.5% for Lancaster County.

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

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**LOAN-TO-DEPOSIT RATIO**

The quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to Bank of Northumberland, Inc., ranged from 71.7% to 76.7% for the 15 quarter period ending December 2000. During the same time period, the bank's loan-to-deposit ratio averaged 71.8% and currently (December 31, 2000) equals 77.5%. Since July 1, 1997, loans, deposits, and assets have increased by 35.8%, 22.7%, and 15.5%, respectively. Overall, the bank's loan-to-

deposit ratio is considered reasonable.

## **LENDING IN ASSESSMENT AREA**

To determine the institution's volume of lending within its assessment areas, a sample of 121 consumer unsecured loans and 56 business loans were reviewed. The samples were selected from 300 consumer unsecured loans and 78 business loans made during the previous three months. The lending distribution is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Consumer Unsecured		Business		Total	
	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	86	35	41	15	127	50
Percentage of Loans	71.7%	28.9%	73.2%	26.8%	71.8%	28.2%
Amount of Loans (000's)	\$225	\$79	\$1,321	\$379	\$1,546	\$458
Percentage of Amount	74.0%	26.0%	77.7%	22.3%	77.1%	22.9%

As illustrated above, a majority of the number (71.8%) and dollar amounts (77.1%) of the loans were provided to borrowers located in the institution's assessment area. The proportion of loans extended by the bank in their assessment areas is considered responsive to community credit needs.

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

To evaluate the bank's level of lending to borrowers of varying income levels, the 86 consumer unsecured and the 41 sampled business loans extended within the bank's assessment area were analyzed.

Distribution of Consumer Unsecured Loans by Income Level of Borrower

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	49	25	7	5	86
Percentage of Total Loans	57.0%	29.1%	8.1%	5.8%	100%
Total Amount of Loans (000's)	\$87	\$84	\$44	\$11	\$226
Percentage of Total Amount	38.5%	37.1%	19.5%	4.9%	100%

The institution's level of lending to low- (57.0%) and moderate-income borrowers (29.1%) is considered more than reasonable when compared to the percentage of such families (low-income 19.4% and moderate-income 16.4%) located within the assessment area.

#### Distribution of Loans by Size of Business

	Revenues < \$ 1 Million	Revenues > \$ 1 Million	Total
Total Number of Loans	41	0	41
Percentage of Total Loans	100%	0%	100%
Total Amount of Loans (000's)	\$1,321	\$0	\$1,321
Percentage of Total Amount	100%	0%	100%

According to June 1999 Dunn & Bradstreet (D&B) demographic information, 89.4% of the business establishments within this assessment area have revenues of less than \$1 million. As illustrated in the table above, all (100%) of the 41 small business loans extended within the assessment area were provided to businesses with revenues of \$1 million or less. Furthermore, 90.2% of the 41 small business loans were to borrowers with revenues not exceeding \$1 million and in amounts of \$100,000 or less.

Overall, the institution's lending distribution to borrowers of different income levels is considered more than reasonable when using area demographic and business data as proxies for loan demand.

#### **GEOGRAPHIC DISTRIBUTION OF LOANS**

The 86 consumer unsecured and 41 business loans extended within the institution's market areas were also analyzed to determine

the level of lending among geographies of varying income levels.

As previously mentioned, the bank's assessment area contains five geographies of which four are middle-income and one is upper-income. Accordingly, all 86 consumer unsecured loans originated in this community were in middle- and upper-income areas (98.8% and 1.2%, respectively). Of the 41 business loans originated, 97.6% were made in middle-income BNAs and 2.4% were made in the upper-income BNA. In this assessment area 78.2% of families and 80.4% of businesses reside in middle-income BNAs.

The institution's overall level of lending in geographies of different income levels is considered more than reasonable when using demographic data as a proxy to estimate loan demand.

### **Investments**

The bank has purchased nine Virginia State Housing Development Authority bonds. The Authority promotes affordable housing by financing single-family and multifamily mortgages for low- and moderate-income individuals throughout the Commonwealth, including the bank's assessment area. These investments total \$1,740,000. The bank's level of participation in qualified community development investments 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. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.