

PUBLIC DISCLOSURE

May 13, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Valley Bank

2303086

36 Church Avenue, SW

Roanoke, Virginia 24011

**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.

TABLE OF CONTENTS

Institution’s CRA Rating 1

Scope of Examination 1

Description of Institution 1

Description of Roanoke, Virginia MSA Assessment Area..... 2

Conclusions with Respect to Performance Tests 5

Glossary..... 11

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.
The Lending Test is rated: Satisfactory.
The Community Development Test is rated: Satisfactory.

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable in relation to the demand for credit in the assessment area.
- A substantial majority of the institution's Home Mortgage Disclosure Act (HMDA) and small business loans were originated within the bank's assessment area.
- The bank's borrower distribution performance for HMDA lending is considered poor, while its small business loan performance is reasonable. Overall, the bank's borrower distribution performance is considered reasonable.
- The bank's geographic distribution performance is considered reasonable overall.
- The bank's lending, service, and investment community development activities demonstrate adequate responsiveness to community development needs.
- The institution has not received any complaints regarding its Community Reinvestment Act (CRA) performance since the previous evaluation.

SCOPE OF EXAMINATION

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). Valley Bank (VB) is required to report certain information regarding its home mortgage lending in accordance with the HMDA. Accordingly, the bank's 2011 and 2012 HMDA loan originations were considered in the evaluation. VB also optionally collects loan data for small business loans consistent with the CRA. Therefore, the analysis also includes all small business loans originated by the bank during the calendar years 2011 and 2012. Qualified community development loans, investments, and services are considered for activities since the previous evaluation dated May 2, 2011. All qualified investments outstanding as of the date of this evaluation were also considered regardless of when made.

DESCRIPTION OF INSTITUTION

VB is headquartered in Roanoke, Virginia, and operates eight branch offices in Botetourt and Roanoke Counties and the Cities of Roanoke and Salem, Virginia. The bank is a wholly-owned subsidiary of Valley Financial Corporation, a single-bank holding company headquartered in Roanoke, Virginia. VB offers its customers investment services through a non-bank subsidiary, Valley Wealth Management. VB received a Satisfactory rating at its previous CRA evaluation dated May 2, 2011. No known legal impediments exist that would prevent the bank from meeting the credit needs of the assessment area.

As of March 31, 2013, the bank had \$792.8 million in assets, of which 67.8% were net loans and 19.2% were securities. Various deposit and lending products are offered by the bank including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio (using gross loans) as of March 31, 2013, is represented in the chart on the following page:

Composition of Loan Portfolio

Loan Type	3/31/2013	
	\$(000s)	%
Secured by 1-4 Family dwellings	133,417	24.4
Multifamily	18,146	3.3
Construction and Development	42,804	7.8
Commercial & Industrial/ NonFarm NonResidential	345,755	63.5
Consumer Loans and Credit Cards	4,304	0.8
Agricultural Loans/ Farmland	1,212	0.2
All Other	41	0.0
Total	545,679	100.0

As indicated in the preceding table, the bank is an active residential mortgage and commercial/small business lender. These portfolio composition percentages also correspond with the number of new loans recently extended by the bank. The bank faces no financial or business strategy constraints regarding its ability to meet community credit needs.

DESCRIPTION OF ROANOKE, VIRGINIA MSA ASSESSMENT AREA

The bank has one assessment area that includes the Cities of Roanoke and Salem, Roanoke County, and Botetourt County. The assessment area is located in the southwestern part of Virginia, and the City of Roanoke is the 9th largest city in the commonwealth. The assessment area, which has not changed since the previous evaluation, is a part of the Roanoke Metropolitan Statistical Area (MSA). VB ranks third in deposit market share having 10.7% of assessment area deposits as of June 30, 2012.

According to the 2000 census data, the assessment area has a population of 235,932 and a median housing value of \$101,151. The owner-occupancy rate for the assessment area is 64.6% which is lower than the owner-occupancy rate for the Roanoke MSA (65.2%) and higher than rate for the commonwealth at 63.3%. The area’s poverty rate (6.8%) is lower than that of the entire MSA (6.9%), as well as that of the commonwealth (7%). The estimated 2011 HUD median family income is \$62,400.

In comparison, the 2010 census data reflects an assessment area population of 247,358 and a median housing value of \$167,117. The owner-occupancy rate for the assessment area is 63.8% which is lower than the owner-occupancy rate for the Roanoke MSA (64.0%) and higher than rate for the commonwealth at 61.8%. The area’s poverty rate (8.3%) is lower than that of the entire MSA (8.7%) and higher than that of the commonwealth (7.2%). The estimated 2012 HUD median family income is \$63,200.

The following tables provide relevant demographics for the assessment area, one based on 2000 census and the other based on 2010 census. Each table also includes recent Dun and Bradstreet (D&B) business demographic information.

Assessment Area Demographics

Roanoke, VA MSA (Based on 2000 Census Boundaries and 2011 D&B information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	3	6.1	2,806	4.3	938	33.4	11,263	17.3
Moderate	9	18.4	9,083	14.0	1,318	14.5	12,213	18.8
Middle	24	49.0	32,626	50.2	1,782	5.5	15,322	23.6
Upper	12	24.5	20,486	31.5	401	2.0	26,203	40.3
NA	1	2.0	0	0.0	0	0.0		
Total	49	100.0	65,001	100.0	4,439	6.8	65,001	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	1,702	2.5	4,698	4.8	1,730	36.8	21,652	22.1
Moderate	8,437	12.5	15,866	16.1	2,816	17.7	16,820	17.1
Middle	33,838	50.2	50,255	51.1	3,983	7.9	19,717	20.0
Upper	23,398	34.7	27,536	28.0	996	3.6	40,166	40.8
NA	0	0.0	0	0.0	0	0.0		
Total	67,375	100.0	98,355	100.0	9,525	9.7	98,355	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	535	3.5	466	3.4	55	5.9	14	2.8
Moderate	2,428	15.9	2,127	15.3	201	21.4	100	19.9
Middle	7,514	49.1	6,770	48.8	482	51.3	262	52.2
Upper	4,815	31.5	4,490	32.4	199	21.2	126	25.1
NA	8	0.1	6	0.0	2	0.2	0	0.0
Total	15,300	100.0	13,859	100.0	939	100.0	502	100.0
Percentage of Total Businesses:				90.6		6.1		3.3

*NA-Tracts without household or family income as applicable

Assessment Area Demographics

Roanoke, VA MSA (Based on 2010 ACS Boundaries and 2012 D&B information)										
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income			
	#	%	#	%	#	%	#	%		
Low	3	5.6	3,250	5.0	1,349	41.5	12,359	19.0		
Moderate	10	18.5	11,251	17.3	1,973	17.5	11,552	17.8		
Middle	21	38.9	23,834	36.6	1,405	5.9	14,033	21.6		
Upper	20	37.0	26,741	41.1	694	2.6	27,132	41.7		
NA	0	0.0	0	0.0	0	0.0				
Total	54	100.0	65,076	100.0	5,421	8.3	65,076	100.0		
	Owner Occupied Units by Tract		Households							
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income			
	#	%	#	%	#	%	#	%		
Low	1,712	2.4	5,347	5.2	2,304	43.1	23,054	22.2		
Moderate	11,781	16.5	20,074	19.4	3,875	19.3	17,680	17.1		
Middle	25,982	36.4	39,224	37.9	3,600	9.2	19,409	18.8		
Upper	31,995	44.8	38,829	37.5	2,036	5.2	43,331	41.9		
NA	0	0.0	0	0.0	0	0.0				
Total	71,470	100.0	103,474	100.0	11,815	11.4	103,474	100.0		
	Total Businesses by Tract		Businesses by Tract and Revenue Size							
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported			
	#	%	#	%	#	%	#	%		
Low	614	4.2	532	4.0	62	6.8	20	3.9		
Moderate	2,395	16.3	2,088	15.8	199	21.9	108	21.3		
Middle	5,333	36.4	4,839	36.5	310	34.1	184	36.3		
Upper	6,315	43.1	5,781	43.7	339	37.3	195	38.5		
NA	0	0.0	0	0.0	0	0.0	0	0.0		
Total	14,657	100.0	13,240	100.0	910	100.0	507	100.0		
Percentage of Total Businesses:				90.3		6.2		3.5		

*NA-Tracts without household or family income as applicable

Employment opportunities in the area are afforded by a mix of employers including local government, as well as finance, healthcare, and retail businesses. Major employers include Wells Fargo Bank, Roanoke City and County Schools, Roanoke Memorial Community Hospital, Yokohama Tire Corporation, Kroger Company, and the U.S. Veteran's Affairs Office. Current and recent periodic unemployment rates are included in the following table.

Unemployment Rate								
Geographic Area	June 2011	Sept 2011	Dec 2011	Mar 2012	June 2012	Sept 2012	Dec 2012	Mar 2013
Roanoke City	8.7%	8%	7.7%	7.5%	7.7%	6.8%	6.8%	6.4%
Salem City	6.5%	6.6%	6.4%	6.1%	6.5%	5.5%	5.5%	5.3%
Roanoke County	6.2%	5.8%	5.1%	5.4%	5.6%	5.1%	5%	4.6%
Botetourt County	6%	6%	5.5%	5.5%	5.7%	5.3%	5.1%	4.6%
Roanoke, VA MSA	7.1%	6.8%	6.3%	6.2%	6.5%	5.8%	5.8%	5.4%
Commonwealth of Virginia	6.7%	6.5%	6.1%	6%	6.2%	5.7%	5.5%	5.2%

Despite some slight fluctuations, area unemployment rates have generally trended downward since the bank's previous evaluation in May 2011. When compared to corresponding unemployment rates for the commonwealth and the MSA, with the exception of the City of Roanoke, unemployment rates in the bank's assessment area tend to be about the same.

A community development official was contacted during the examination to assist in evaluating local credit needs. The contact described the economic conditions in the area as being stable due to several employers making sizable investments in the area. Overall, the contact noted that local financial institutions have been willing contributors to area activities that support small business development and in serving the credit needs of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

To evaluate the bank's lending performance, HMDA and small business lending activity was analyzed. Available area demographic and market aggregate data are used as proxies for demand when evaluating the bank's performance. Demographic data is from the 2000 and 2010 census, while D&B business demographic data are from 2011 and 2012. Aggregate small business and HMDA data are from calendar year 2011. Aggregate small business and HMDA data for 2012 are not yet publicly available; therefore, 2010 demographic data are used as a proxy for credit demand. Aggregate data include all activity reported by lenders subject to reporting HMDA data that originated and/or purchased such loans within the bank's assessment area. Similarly, the aggregate small business lending data include all lenders that report small business data.

While HMDA, small business, and consumer loan data from calendar years 2011 and 2012 was fully analyzed and considered in the evaluation, only bank loan data from 2011 is presented in the following distribution tables. In instances where the loan performance during 2012 varies significantly from performance in 2011, such variance and the corresponding impact on the overall performance are discussed.

When evaluating the geographic and the borrower distribution of loans, primary consideration is given to the number (and corresponding percentage) of loans when assessing performance for individual loan types. When combining multiple loan products to arrive at an overall conclusion, the level of performance of each product is weighted primarily by the dollar volume that the product contributes to the overall activity considered in the evaluation. As a result, small business lending is accorded more weight than the bank's HMDA lending.

The distribution of small business lending considers as an element of performance context that throughout the bank's assessment area, a high volume of small business lending activity is noted for specialized lenders who tend to originate small business loans in the form of credit cards. These loans, however, tend to be much smaller in size than traditional small business bank loans. Not only do such loans tend to be smaller, but when included in the aggregate, these reporters often tend to depress the proportion of reported loans to businesses with revenues of \$1 million or less because many of the loans reported by these card lenders do not include revenue information.

Overall, the bank's lending test performance is rated Satisfactory. This rating considers the bank's loan-to-deposit ratio, level of lending in assessment area, and both borrower and geographic lending distribution performance.

The review of the bank's community development performance is also rated Satisfactory. This conclusion is based on the number and amount of community development loans, the amount of qualified investments, the extent to which the bank provides community development services, and the bank's responsiveness to identified community development lending, investment, and service needs.

The components of each test are discussed in the following sections. All conclusions also take into consideration relevant performance context factors.

Loan-To-Deposit Ratio

A bank's loan-to-deposit ratio is one measure of its lending relative to its capacity. VB's loan-to-deposit ratio as of March 31, 2013, equaled 81.5% and averaged 81% for the eight-quarter period ending March 31, 2013. In comparison, the average of quarterly loan-to-deposit ratios for all banks headquartered in metropolitan areas of Virginia and of similar asset size to VB ranged from 76.4% to 81.5% for a recent seven-quarter period ending in December 31, 2012. Since March 31, 2011, bank assets and deposits have decreased by .6% and .3%, respectively, while bank loans have increased by 2.5%. Within the context of the CRA, the bank's loan-to-deposit ratio is considered reasonable given the institution's size, financial condition, and local credit needs.

Lending In Assessment Area

The bank's HMDA and small business lending activity during 2011 and 2012 is represented in the following table that depicts lending inside and outside of the bank's assessment area. The data does not include large commercial loans (loan amounts in excess of \$1 million) or any other loan type not specified.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Improvement	34	91.9	1,633	79.1	3	8.1	432	20.9
Home Purchase - Conventional	51	76.1	12,808	80.0	16	23.9	3,196	20.0
Multi-Family Housing	8	80.0	3,419	36.8	2	20.0	5,875	63.2
Refinancing	125	86.2	22,769	85.3	20	13.8	3,919	14.7
Total HMDA related	218	84.2	40,629	75.2	41	15.8	13,422	24.8
Small Bus. - Secured by Real Estate	75	92.6	26,286	95.3	6	7.4	1,307	4.7
Small Business	348	89.0	97,161	79.1	43	11.0	25,664	20.9
TOTAL LOANS	641	87.7	164,076	80.2	90	12.3	40,393	19.8

As illustrated in the preceding table, overall, a substantial majority of the number (87.7%) and dollar amount (80.2%) of loans during the review period were extended to residents and businesses in the bank's assessment area. Overall, the institution's level of lending within its assessment areas is considered highly responsive to community credit needs.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans to borrowers of different income/revenue levels ranges from poor to reasonable, but overall is considered reasonable.

Distribution of HMDA Loans by Income Level of Borrower

Roanoke, VA MSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
HMDA Totals								
Low	2	6.1	60	1.4	818	11.4	64,848	6.1
Moderate	6	18.2	357	8.3	1,726	24.0	187,707	17.6
Middle	3	9.1	216	5.0	1,780	24.7	248,693	23.4
Upper	22	66.6	3,647	85.3	2,878	39.9	563,011	52.9
Total	33	100.0	4,280	100.0	7,202	100.0	1,064,259	100.0
Unknown	14		2,695		1,572		298,836	

Percentage's (%) are calculated on all loans where incomes are known

VB's 2011 lending to low-income borrowers (6.1%) lagged the aggregate lending level to low income borrowers (11.4%) and the proportion of low-income families in the assessment area (17.3%) and is considered poor. The bank's level of lending to moderate-income borrowers (18.2%) only slightly lagged the aggregate lending level (24%); however, bank lending was comparable to the percentage of moderate-income families living in the assessment area (18.8%) and is considered reasonable. The bank's HMDA lending performance in 2011 is considered reasonable overall, primarily due to the strength of its lending to moderate-income borrowers.

During 2012, the bank's performance was not as strong, although total lending volume was significantly higher (171 loans totaling \$33.7 million). Of these loans, six (4.2%), totaling \$381,000 were extended in low-income tracts and 13 (9%), totaling \$621,000, were extended in moderate-income tracts. Based on the 2010 census data, 19% of families are considered low-income, while 24% of families are considered moderate-income within the assessment area. This level of lending is considered poor.

The bank's overall level of HMDA lending to low- and moderate-income borrowers is considered poor. In reaching this conclusion, greater weight was placed on the bank's 2012 lending, due to the significantly higher number and dollar volume of loans originated during 2012.

Distribution of Lending by Loan Amount and Size of Business

(Bank lending includes both Small Business and Small Business secured by Real Estate)

Roanoke, VA MSA (2011)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	90	47.4	23,607	51.4	1,483	47.6	76,902	41.3
Over \$1 Million	99	52.1	22,070	48.1	NA	NA	NA	NA
Unknown	1	0.5	250	0.5	NA	NA	NA	NA
by Loan Size	Bank				Aggregate*			
\$100,000 or less	123	64.6	5,828	12.7	2,725	87.5	45,797	24.6
\$100,001-\$250,000	33	17.4	11,184	24.4	176	5.7	31,993	17.2
\$250,001-\$1 Million	19	10.0	24,668	53.7	212	6.8	108,447	58.2
Total	190	100.0	45,927	100.0	3,113	100.0	186,237	100.0

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data indicates that 90.6% of all local businesses have revenues that do not exceed \$1 million per year. According to 2011 aggregate small business data, 47.6% of reported loans were extended to businesses with annual revenues of \$1 million or less. The remaining loans were to businesses with revenues in excess of \$1 million per year or revenues were not known. As part of the performance context, the aggregate data was also considered after excluding certain specialty lenders. Of the remaining small business loans originated by traditional bank lenders, 59% were made to businesses with annual revenues of \$1 million or less. Of the bank's small business loans considered in the evaluation, 47.4% of MB's small business loans were to businesses with annual revenues of \$1 million or less. The bank's performance is considered reasonable. During 2012, small business volume increased (190 loans totaling \$61.6 million) and lending performance was substantially similar to that for 2011.

Overall, the bank's lending to borrowers of different incomes or revenues is considered reasonable. In reaching this conclusion, greater weight was given to the bank's small business lending, due to the significantly higher volume and dollar amount of loans originated.

Geographic Distribution of Loans

The bank's geographic distribution of lending within the assessment area for HMDA and small business lending is reasonable overall.

Distribution of HMDA Loans by Income Level of Census Tract

Roanoke, VA MSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(14) Home Purchase				(3,300)			
Low	1	7.1	49	2.4	36	1.1	2,372	0.5
Moderate	0	0.0	0	0.0	350	10.6	30,608	6.0
Middle	9	64.3	1,103	53.3	1,682	51.0	233,040	45.7
Upper	4	28.6	917	44.3	1,232	37.3	244,075	47.8
	(24) Refinance				(4,888)			
Low	0	0.0	0	0.0	48	1.0	3,720	0.5
Moderate	0	0.0	0	0.0	332	6.8	31,790	4.1
Middle	13	54.2	1,901	40.8	2,329	47.6	326,425	42.1
Upper	11	45.8	2,754	59.2	2,179	44.6	412,976	53.3
	(9) Home Improvement				(570)			
Low	0	0.0	0	0.0	27	4.7	153	0.7
Moderate	2	22.2	68	27.1	77	13.5	1,446	6.6
Middle	2	22.2	57	22.7	310	54.4	9,791	44.9
Upper	5	55.6	126	50.2	156	27.4	10,398	47.8
	(0) Multi-Family				(16)			
Low	0	0.0	0	0.0	1	6.3	638	1.1
Moderate	0	0.0	0	0.0	5	6.3	1,577	2.8
Middle	0	0.0	0	0.0	10	62.5	54,086	96.1
Upper	0	0.0	0	0.0	0	0.0	0	0.0
	HMDA Totals							
Low	1	2.1	49	0.7	112	1.3	6,883	0.5
Moderate	2	4.3	68	1.0	764	8.7	65,421	4.8
Middle	24	51.1	3,061	43.9	4,331	49.4	623,342	45.7
Upper	20	42.5	3,797	54.4	3,567	40.6	667,449	49.0
NA*	0	0.0	0	0.0	0	0.0	0	0.0
Total	47	100.0	6,975	100.0	8,774	100.0	1,363,095	100.0

NA*-Tracts without household or family income as applicable

As indicated by the table above, home purchase and refinance loans were the bank's and aggregate lender's most frequently extended products. When considering aggregate lending levels, the bank's home purchase lending is considered excellent in low-income census tracts and poor in moderate-income census tracts. The bank did not extend any refinance loans in low-income or moderate-income census tracts and this performance is considered very poor. On a combined basis, the bank's level of lending to low- and moderate-income geographies for 2011 (2.1% and 4.3%, respectively) is considered poor given the proportion of owner-occupied housing units located in such areas (2.5% and 12.5%) and the corresponding aggregate lending levels in such census tracts (1.3% and 8.7%).

As previously mentioned, the bank's HMDA lending increased significantly in 2012 (171 loans totaling \$33.7 million). VB's level of lending in low-income tracts (1.8%) for this year only slightly lagged the percentage of owner-occupied housing units located in low-income census tracts (2.4%), according to the 2010 census data. Lending in moderate-income tracts (12.9%) also somewhat lagged the percentage of owner-occupied housing units located in moderate-income census tracts (16.5%), according to the 2010 census data. Overall, considering the demographic proxy for demand, the 2012 level of lending in low- and moderate-income census tracts is considered reasonable.

The bank’s overall HMDA geographic performance is considered reasonable. In reaching this conclusion, greater weight was given to the bank’s 2012 performance due to the significantly higher number and dollar volume of loans originated in 2012.

Distribution of Small Business Loans by Income Level of Census Tract

(Bank lending includes both Small Business and Small Business secured by Real Estate)

Roanoke, VA MSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	4	2.1	373	0.8	107	3.5	8,056	4.3
Moderate	36	18.9	6,973	15.2	484	15.9	35,142	18.9
Middle	101	53.2	24,586	53.5	1,516	49.7	95,084	51.2
Upper	49	25.8	13,995	30.5	943	30.9	47,586	25.6
NA*	0	0.0	0	0.0	1	0.0	4	0.0
Total	190	100.0	45,927	100.0	3051	100.0	185,872	100.0

*NA-Tracts without household or family income as applicable

Loans where the geographic location is unknown are excluded from this table.

D&B data indicates that 3.5% and 15.9% of all area businesses are located in low- and moderate-income tracts, respectively. As shown in the preceding table, the bank’s small business lending during 2011 in low-income tracts (2.1%) was less than the percentage of area business in those areas, while the bank’s lending in moderate-income tracts (18.9%) exceeded the percentage of businesses in such areas. The bank’s performance is similar when considering 2011 aggregate data as a proxy for demand. Overall, the bank’s performance level is reasonable when considering D&B demographic data and relevant performance context information. During 2012, while the bank’s volume of small business lending increased, the lending performance was similar to that for 2011.

Community Development Loans, Investments, and Services

VB supports community development initiatives and organizations that benefit the assessment area by making qualified loans, investments, donations and providing financial expertise. Discussions with an individual knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that local community development opportunities are reasonably available within portions of the bank’s assessment area. Given its current loan-to-deposit ratio (81.5%), the bank’s capacity for additional lending, including community development lending, does not appear to be constrained. Additionally, the bank does not face any barriers to providing community development services or making qualified investments.

During the evaluation period, the bank originated two community development loans totaling \$480,000. Both loans were for the purpose of providing affordable housing to low- and moderate-income residents.

Additionally, since the previous evaluation, the bank has made five equity investments, totaling \$9.3 million. Four were bonds issued by the Virginia Housing Development Authority (VHDA). The VHDA is a public mortgage lender that serves the housing needs of low- and moderate-income individuals throughout the Commonwealth of Virginia. The bank also has an investment in the Virginia Resources Authority (VRA). The VRA is an organization that helps to fund local infrastructure projects throughout the Commonwealth of Virginia, including projects within the bank’s assessment area. Additionally, VB has donated \$12,108 to several organizations in the assessment area that serve low- and moderate-income individuals.

The bank provides financial education seminars to low- and moderate-income individuals and small businesses located within the bank's assessment area. Additionally, the bank and its employees supply financial expertise to the following organizations that either provide community development services targeted to area low- and moderate-income residents or facilitate small business development.

- A bank employee serves on the board of directors of Turning Point. The organization provides shelter and various necessities to battered women who have little means of support.
- A bank employee serves on the VHDA Lender Advisory Board.
- A bank employee serves on the board of directors for the local chapter of Big Brothers/Big Sisters which provides services to low- and moderate-income children.
- A bank employee serves on the board of directors for the Roanoke Small Business Development Corporation.
- A bank employee serves on the board of directors for the DePaul Community Resources organization, which provides assistance to low- and moderate-income children and families with special needs.
- A bank employee serves as a member of the Vinton Downtown Revitalization Program.
- An employee serves on the advisory board of the local Habitat for Humanity, which provides families access to affordable housing.

Overall, the bank's performance demonstrates an adequate responsiveness to community development needs when considering institution capacity and available opportunities within the assessment area.

Fair Lending or Other Illegal Credit Practices Review

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.