

PUBLIC DISCLOSURE

June 16, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bay Community Bank

2736442

603 Pilot House Drive

Newport News, Virginia 23606

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.

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered more than reasonable given the bank's capacity, location, and demand for credit in the assessment area.
- A substantial majority of the institution's Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA) loans were originated within the bank's assessment area.
- Lending to borrowers of different income levels and businesses of different sizes is considered reasonable overall.
- The bank's geographic distribution performance is considered marginally reasonable when compared to various proxies for demand.
- There have been no complaints regarding the bank's 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). Bay Community Bank (BCB) and its mortgage affiliate, Johnson Mortgage Company (JMC), are required to report certain information regarding their home mortgage lending in accordance with the HMDA. Accordingly, BCB and JMC 2006 and 2007 HMDA loan originations were considered in the evaluation. Additionally, the bank optionally reported data on its small business and small farm lending consistent with the Community Reinvestment Act (CRA) during 2006 and 2007, and this data is also considered in the evaluation. A total of 439 HMDA originations reported by the bank and JMC during 2006 and 2007 and a total of 207 small business/small farm originations for the same timeframe were considered in the evaluation.

While HMDA and CRA data from calendar years 2006 and 2007 were analyzed and considered in the evaluation, unless otherwise noted, only bank (including mortgage company) and aggregate data from 2006 is presented in the tables detailing borrower income and geographic distribution. In instances where the performance during 2007 varies significantly from the performance in 2006, such variances and the corresponding impact on the overall performance are discussed.

Area demographic data and market aggregate information are used as proxies for demand when evaluating the bank's performance. Aggregate data used in this evaluation includes all HMDA and small business loans reported within the bank's assessment area. Demographic data is from the 2000 census, while HMDA and small business aggregate data are from calendar year 2006. The 2007 aggregate data for HMDA and small business is not yet available. Additionally, the Dun & Bradstreet (D&B) business data is current as of 2007.

DESCRIPTION OF INSTITUTION

Bay Community Bank is headquartered in Newport News, Virginia, and operates three additional full-service branches in York and James City Counties, Virginia, and the City of Williamsburg, Virginia. The bank is a wholly-owned subsidiary of Union Bankshares Corporation, a multi-bank holding company headquartered in Bowling Green, Virginia. BCB has a 51% ownership interest in Johnson Mortgage Company headquartered in Newport News, Virginia.

As of March 31, 2008, BCB had \$131.4 million in assets, of which 83.3% were loans and 8.2% were securities. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The loan portfolio, as of March 31, 2008, was comprised of 46% commercial real estate secured, 43.4% one- to four- family residential real estate secured, 7% commercial and agriculture, 2.5% consumer, and 1.1% other loans. The institution's previous CRA rating, dated June 14, 2004, was Satisfactory.

Description of Assessment Area

BCB's assessment area includes the cities of Williamsburg, Hampton, Newport News, and Poquoson, as well as the counties of James City and York, Virginia. Additionally, census tract 8601 in Surry County and census tract 7003 in New Kent County are included. Most of the bank's assessment area is within the Virginia Beach-Norfolk-Newport News, VA-NC (Virginia Beach) Metropolitan Statistical Area (MSA). New Kent County is located in the Richmond, VA MSA, and Surry County is considered a nonmetropolitan area. The assessment area contains four low-, 29 moderate-, 34 middle-, and 28 upper-income census tracts.

According to the 2000 census data, this market has a population of 463,175 and a median housing value of \$103,927. The owner-occupancy rate for the market equals 57.1%, which is lower than the rates for both the Commonwealth of Virginia (63.3%) and the Virginia Beach MSA (58.8%). The percentage of families living below the poverty level in the assessment area equals 8.3%, which exceeds the rate for the commonwealth (7%) and is comparable to the Virginia Beach MSA (8.4%). The 2007 median family income for the Virginia Beach MSA equals \$64,100.

The following table provides demographic data for the assessment area by the income level of families and the percentage of the population living in census tracts of varying income levels. The table also displays the distribution of owner-occupied housing units by income level of census tract, as well as D&B business demographic information.

ASSESSMENT AREA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	4	4.2	3,360	2.8	1,560	46.4	23,367	19.4
Moderate	29	30.5	28,787	23.9	4,372	15.2	22,374	18.6
Middle	34	35.8	47,842	39.7	3,048	6.4	27,525	22.8
Upper	28	29.5	40,473	33.6	973	2.4	47,196	39.2
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	95	100.0	120,462	100.0	9,953	8.3	120,462	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner Occupied		Rental		Vacant		
		#	%	#	%	#	%	
Low	6,090	1,387	1.3	22.8	4,085	67.1	618	10.1
Moderate	48,081	18,997	18.0	39.5	25,223	52.5	3,861	8.0
Middle	75,064	42,226	40.0	56.3	28,534	38.0	4,304	5.7
Upper	55,804	43,022	40.7	77.1	10,134	18.2	2,648	4.7
NA	0	0	0.0	0.0	0	0.0	0	0.0
Total	185,039	105,632	100.0	57.1	67,976	36.7	11,431	6.2
	Total Businesses by Tract	Businesses by Tract and Revenue Size						
		Less than or = \$1 Million		Over \$1 Million		Revenue not Reported		
		#	%	#	%	#	%	
Low	384	2.6	332	2.5	34	2.8	18	5.6
Moderate	3,805	25.9	3,331	25.3	384	31.2	90	28.2
Middle	5,568	37.9	4,986	37.9	452	36.7	130	40.8
Upper	4,937	33.6	4,495	34.2	361	29.3	81	25.4
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	14,694	100.0	13,144	100.0	1,231	100.0	319	100.0
Percentage of Total Businesses:				89.5		8.4		2.2
	Total Farms by Tract	Farms by Tract and Revenue Size						
		Less than or = \$1 Million		Over \$1 Million		Revenue not Reported		
		#	%	#	%	#	%	
Low	2	2.5	2	2.6	0	0.0	0	0.0
Moderate	6	7.5	6	7.7	0	0.0	0	0.0
Middle	46	57.5	45	57.7	0	0.0	1	100.0
Upper	26	32.5	25	32.1	1	100.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	80	100.0	78	100.0	1	100.0	1	100.0
Percentage of Total Farms:				97.5		1.3		1.3

NA Tracts are tracts without household or family income.

The bank's assessment area is diverse and consists of both urban and rural areas. The local economy is supported by the manufacturing, government, and retail trade industries along with various military installations. Major employers in the assessment area include Northrop Grumman Shipbuilding, Riverside Regional Medical Center, Newport News Public Schools, the U.S. Department of Defense, Anheuser Busch, Incorporated, and the Colonial Williamsburg Foundation. As of May 2008, the unemployment rates for cities of Williamsburg, Poquoson, Newport News, and Hampton, and the counties of James City, York, New Kent, and Surry, Virginia, were 6.9%, 2.9%, 4.3%, 4.4%, 3%, 2.9%, 3.2%, and 3.6%, respectively. In comparison, the rate for the Commonwealth of Virginia was 3.8%.

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-To-Deposit Ratio

As of March 31, 2008, the bank's loan-to-deposit ratio equaled 129.9% and averaged 119.8% for the 16-quarter period ending March 31, 2008. During the same time period, the average quarterly loan-to-deposit ratios for all banks headquartered in metropolitan areas of Virginia, and of similar asset size to BCB, ranged from 78.8% to 86.6%. Since June 30, 2004, bank assets, loans, and deposits have increased by 71%, 59.7%, and 45.5%, respectively. The bank's loan-to-deposit ratio is considered more than reasonable given the institution's size, financial condition, and assessment area needs.

Lending In Assessment Area

To evaluate the institution's lending performance within its assessment area, 101 HMDA, 206 small business, and one small farm loan that were originated during 2006 and 2007 were reviewed. The analysis does not include affiliate HMDA loans. The lending distribution is represented in the following table for the assessment area.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	278	30	308
Percentage of Total Loans	90.3%	9.7%	100%
Total Amount of Loans (000's)	\$36,188	\$6,246	\$42,434
Percentage of Total Amount	85.3%	14.7%	100%

As illustrated in the preceding chart, a substantial majority of the number (90.3%) and dollar amount (85.3%) of loans were provided to borrowers located in the bank's assessment area. Overall, the institution's level of lending within its assessment area is considered highly responsive to community credit needs.

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

Overall, the bank's lending distribution to borrowers of different incomes and businesses of different sizes is considered reasonable when using area demographic and aggregate data as proxies for demand.

Distribution of HMDA Loans by Income Level of Borrower

Although the bank reported a total of 181 HMDA loans for the assessment area during 2006, income data was not reported for 33 of these transactions and are excluded from the following table.

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	8	21	26	93	148
Percentage of Total Loans	5.4%	14.2%	17.6%	62.8%	100%
Total Amount of Loans (000's)	\$567	\$2,730	\$4,316	\$21,619	\$29,232
Percentage of Total Amount	1.9%	9.3%	14.8%	74%	100%

While the percentage of the bank's HMDA loans extended to low-income borrowers (5.4%) is less than the percentage of area low-income families (19.4%), it is comparable to the percentage of aggregate lending (5.7%). The bank's level of lending to moderate-income borrowers (14.2%) is lower than the percentages of moderate-income families and aggregate data of 18.6% and 21.3%, respectively. BCB's performance during 2007 was similar with 5.9% of HMDA loans extended to low-income borrowers. However, the bank extended 8.4% of HMDA loans to moderate-income borrowers during 2007, which slightly trails its performance during 2006. BCB's level of lending to low- and moderate-income borrowers within the market is considered reasonable.

Distribution of Loans by Size of Business

Of the 94 small business loans extended during 2006, revenue data from three loans were unknown and are excluded from the analysis.

	Revenues < \$ 1 Million	Revenues > \$ 1 Million	Total
Total Number of Loans	53	38	91
Percentage of Total Loans	58.2%	41.8%	100%
Total Amount of Loans (000's)	\$8,755	\$5,730	\$14,485
Percentage of Total Amount	60.4%	39.6%	100%

Of the 91 small business loans extended in the assessment area during 2006, 58.2% were to businesses with revenues of \$1 million or less. Based on recent D&B data, 89.5% of businesses within the assessment area have annual revenues of \$1 million or less. Aggregate small business data indicate that 33% of reported small business loans were to businesses having revenues of \$1 million or less. The remaining portion of businesses had revenues exceeding \$1 million per year or revenue data was not known. BCB's performance during 2007 was higher than 2006 with 76.7% of loans extended to businesses with revenues of \$1 million or less. The bank's overall performance is considered reasonable.

Geographic Distribution of Loans

Overall, the bank's geographic distribution performance is considered marginally reasonable when considering area demographic and aggregate data as proxies for demand.

Distribution of HMDA Loans by Income Level of Census Tract

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	19	86	76	181
Percentage of Total Loans	0.0%	10.5%	47.5%	42.0%	100.0%
Total Amount of Loans (000's)	\$0	\$2,086	\$15,111	\$16,992	\$34,189
Percentage of Total Amount	0.0%	6.1%	44.2%	49.7%	100.0%

For 2006 and 2007, the bank did not extend any HMDA loans in low-income census tracts, and this level of lending is considered poor. Demographic data, however, indicates limited lending opportunities in such tracts. Specifically, only 1.3% of owner-occupied housing units are located in the four low-income tracts having a family poverty rate of 46.4%. In addition, the low percentage of aggregate lending in these areas (1.4%) further demonstrates limited lending opportunities. BCB's level of lending to residents of moderate-income tracts (10.5%) is less than both the proportion of owner-occupied housing units (18%) as well as the aggregate reporter level of lending (20.7%) in such tracts. The bank's level of lending in moderate-income tracts (15.3) during 2007 exceeded the bank's 2006 performance in such areas. When considering demographic data and aggregate lending, the bank's level of lending in moderate-income geographies is weighted more heavily. As a result, the bank's overall HMDA lending is considered marginally reasonable.

Distribution of Small Business Loans by Income Level of Census Tract

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	21	23	50	94
Percentage of Total Loans	0.0%	22.3%	24.5%	53.2%	100.0%
Total Amount of Loans (000's)	\$0	\$4,017	\$2,841	\$7,731	\$14,589
Percentage of Total Amount	0.0%	27.5%	19.5%	53.0%	100.0%

The bank did not extend any small business loans in low-income tracts during 2006 and 2007. The lack of such lending in these areas is considered poor. Similar to HMDA lending, there are limited lending opportunities for small business loans in low-income tracts with 2.6% of the businesses located in such tracts and 1.7% of aggregate lending in these geographies. As a result, more weight is placed on the bank's lending in moderate-income tracts. The bank's small business lending in moderate-income tracts (22.3%) is slightly less than the percentage of businesses located in moderate-income tracts (25.9%) but exceeds the aggregate level of lending (21.2%). The bank's level of lending improved with 38.5% of small business loans extended in moderate-income tracts during 2007. BCB's level of small business lending is considered reasonable.

Fair Lending or Other Illegal Credit Practices Review

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.