



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 15, 2012

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

### **Virginia National Bank**

Charter Number 23616

222 East Main Street  
Charlottesville, Virginia 22902-2853

Office of the Comptroller of the Currency  
4419 Pheasant Ridge Road, Suite 300  
Roanoke, Virginia 24014

**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.

## **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 the institution's rating include:

- The bank's loan to deposit ratio is reasonable when compared to similarly situated banks;
- A substantial majority of the bank's loans originated during the evaluation period were within the bank's assessment areas (AAs);
- The borrower distribution reflects an overall reasonable penetration and satisfactory performance;
- The geographic distribution of loans reflects an overall reasonable dispersion and satisfactory performance; and,
- The bank's community development activities demonstrate adequate responsiveness to the community development needs of its AAs.

## **SCOPE OF EXAMINATION**

Virginia National Bank (VNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the institutions record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the institution's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

Small business loans were determined to be the bank's primary loan product and were reviewed as part of this examination. In order to assess the bank's lending test activity, we selected a random sample of 30 small business loans originated between January 1, 2009 and December 31, 2011 for our review. We also evaluated community development activities during this same timeframe. The bank is a full service community bank offering traditional loan and deposit services, with a focus on small business. The bank offers a full range of depository products for individuals, businesses, organizations and governmental authorities through commercial and consumer loan products.

We performed a Home Mortgage Disclosure Act (HMDA) Data Integrity exam in August 2012. The bank's processes and internal controls for collecting, verifying, and reporting HMDA data are satisfactory. The data integrity examination revealed that VNB's loan data could be relied on for the purposes of this CRA evaluation.

## **DESCRIPTION OF INSTITUTION**

Virginia National Bank is located in Charlottesville, Virginia. VNB is an independently owned bank with no holding company structure. VNB Trust, N.A. (VNBT) is an operating subsidiary of VNB and is a separately chartered trust company. We did not consider activities conducted by VNBT as part of this evaluation.

As of June 30, 2012, VNB's assets totaled \$516 million, deposits totaled \$463.2 million and tier one capital totaled \$48.1 million. Net loans and leases totaled \$295.2 million, representing 57% of total assets. Assets included investments of \$183 million, real estate loans of \$243 million, commercial loans of \$43 million, and individual loans of \$13 million. VNB's real estate loan portfolio included residential (1-4 family) mortgage loans, commercial mortgage loans and other real estate loans which represented 31.1%, 37.6%, and 44.1% respectively of VNB's lending. Commercial and industrial and home equity loans comprise the majority of the remainder of VNB's loan portfolio. Since small business loans represent a significant portion of VNB's loan portfolio, they are considered to be VNB's primary loan product. VNB's strategy is to continue to originate business loans in its market area.

VNB received a satisfactory CRA rating at its last CRA performance evaluation dated July 24, 2009. This evaluation period covers January 1, 2009 through December 31, 2011. We evaluated VNB using the Intermediate Small Bank standards. There are no legal or financial impediments to VNB's ability to meet the credit needs of its AA.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

VNB has four assessment areas located within the state of Virginia as follows: the Charlottesville AA (MSA 16820), the Winchester AA (MSA 49020), the Orange County Non MSA AA, and the Buckingham County Non MSA AA.

VNB operates eight full-service branch offices, two drive-through facilities, and six Automated Teller Machines (ATMs). All branches are located in Virginia with four in Charlottesville, two in Orange, and two in Winchester. During the evaluation period, the 28904 North James Madison Highway branch in Arvonnia (Buckingham County) was closed on February 28, 2011. The night deposit is still available and the ATM was converted to a cash dispenser only. No branches were opened during the evaluation period.

**Charlottesville MSA AA**

The Charlottesville MSA consists of the city of Charlottesville and the counties of Albemarle, Fluvanna, Greene, and Nelson. For purposes of this evaluation, we only assessed the portion of the Charlottesville MSA consisting of the City of Charlottesville and Albemarle County as VNB includes only these two areas within the Charlottesville MSA. The area is centrally located in central Virginia in the eastern foothills of the Blue Ridge Mountains. This area offers an appealing quality of life and a highly skilled work force to complement its interstate rail and air transportation networks.

The estimated total population for the Charlottesville MSA as of 2011 was 203,882. The unemployment rate as of October 2012 was 4.5 percent compared to the state rate of 5.7 percent. The Charlottesville MSA is home to numerous colleges and universities, which include the University of Virginia, the largest employer in the MSA. The AA consists of twenty-nine census tracts: one low-income, seven moderate-income, thirteen middle-income and eight upper-income. Fifteen financial institutions serve this AA, making competition in the area strong.

**Winchester MSA AA**

The Winchester MSA AA is comprised of the independent city of Winchester and Frederick County. The MSA is located at the northernmost tip of Virginia, at the gateway of Virginia's Shenandoah Valley and at the intersection of I-66 and I-81. This fast growing community has become increasingly attractive for both business and residential development due to its location bordering the Washington- Arlington-Alexandria MSA and its excellent road, rail and air service.

The estimated total population for the Winchester MSA as of 2011 was 130,065. The unemployment rate as of October 2012 was 5.5 percent compared to the state rate of 5.7 percent. The Winchester MSA is home to the John Handley High School, a public high school with a multi-million dollar endowment fund. In addition, the Winchester MSA is home to one university, two colleges, and one community college. The MSA has sixteen census tracts, two moderate-income, ten middle-income and four upper-income. The banking competition in this MSA is strong as fourteen financial institutions service the area.

**Orange County AA**

The Orange County AA consists only of Orange County, Virginia. Orange County is located in Virginia's north-central Piedmont region. The county is a rural area with rolling landscapes and views of the Blue Ridge Mountains. The population of Orange County totaled 33,938 as of December, 2011. The unemployment rate was 5.9 percent in October 2012 compared to the state rate of 5.7 percent. The county's top three private employers are Aerojet, American Woodmark Corp., and Battlefield Farms, Inc. The county has five census tracts: two middle-income tracts, and three upper-income tracts. Eight financial institutions service this AA.

## **The Buckingham County AA**

The Buckingham County AA consists only of Buckingham County. Buckingham County is located forty minutes from the city of Charlottesville. The population in December, 2011 was estimated to be 17,278. Unemployment in the county was 7.1 percent in October 2012 compared to the state rate of 5.7 percent. While there are no colleges and universities in the county, there are several that are easily accessible from the county seat. This county is serviced by branches of three financial institutions.

## **SELECTION OF AREAS FOR FULL-SCOPE REVIEW**

The Charlottesville AA is in a designated metropolitan statistical area (MSA) and is the bank's primary market area. The Charlottesville AA received a full scope review. The Winchester AA is a designated MSA and received a full scope review. The Orange County Non MSA AA only includes the County of Orange, Virginia. The Buckingham County Non MSA AA only includes the County of Buckingham, Virginia. Due to the bank's minimal market share within the last two AAs, both received only a limited review.

## **COMMUNITY CONTACT**

We reviewed a recent community contact, a government housing agency, where the primary focus is to assist people with securing rental housing and paying rental subsidy, along with assisting in the purchasing of homes. The community contact identified a credit need as borrowers do not have access to mortgage funds due to the credit crisis. Another identified need was that a majority of individuals that own their own home cannot afford home improvement loans due to these individuals being on a fixed income. The community contact stated that there are many opportunities for financial institution participation with both commercial and residential jobs. The perception of the performance by local financial institutions is favorable, especially the local institutions that are lending to local borrowers.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **LENDING TEST**

VNB's performance under the lending test is satisfactory. VNB's loan-to-deposit ratio is reasonable. A substantial majority of VNB's small business loans were originated within the AAs. VNB's record of lending to businesses of different sizes is reasonable. The overall geographic distribution of loans in the AAs reflects reasonable dispersion.

**LOAN-TO-DEPOSIT RATIO**

VNB’s LTD ratio is satisfactory. The bank’s average LTD ratio for the prior twenty quarters is 82 percent, decreasing slightly from the prior review period when it was 84 percent. This is below the 102 percent average LTD ratio for similarly situated banks during the same time period. However, the bank’s LTD is reasonable considering its size, financial condition, deposit market share and the level of competition within the AAs.

**LENDING IN ASSESSMENT AREA**

A substantial majority of VNB loans are within the bank’s defined AAs. Of the initial random sample of 30 commercial loans made during the evaluation period, 26 were within VNB’s assessment areas or 87 percent.

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

VNB has demonstrated responsiveness to the needs of the bank’s AAs small businesses. VNB’s borrower distribution reflects an overall reasonable penetration and satisfactory performance. The majority of small businesses loans originated by VNB to businesses represent the smaller dollar amounts needed by small business. Specifically, 60 percent of all small business loans in the sample were originated at amounts less than \$100,000.

**Charlottesville MSA AA**

Given the demographics of the AA, the distribution of borrowers reflects reasonable penetration among businesses of different sizes. While the number of loans made to small businesses (those with less than \$1 million in gross annual revenues) within the evaluation period is greater than the percent of small businesses in the AA and the dollar amount is less than the percent of small businesses in the AA, the overall volume is reasonable.

<b>Borrower Distribution of Loans to Businesses- Charlottesville AA</b>				
Business Revenue (or Sales)	≤ \$1,000,000	≥ \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.36%	2.83%	30.81%	100%
% of Bank Loans in AA by #	66.67%	33.33%	0.00%	100%
% of Bank Loans in AA by \$	53.48%	46.52%	0.00%	100%

Source: Dun & Bradstreet data; Loan Sample

**Winchester MSA AA**

The distribution of borrowers reflects reasonable penetration among small businesses, given the demographics of the AA. The distribution of loans to small businesses is excellent in number with 85.71 percent of the loans in this AA to small businesses compared to 70.84 percent of the businesses in the AA having revenues less than \$1 million. The dollar amount of loans made to small businesses having revenues less than \$1 million is less than the percent of small businesses in the AA but meets the standard for reasonable performance.

<b>Borrower Distribution of Loans to Businesses - Winchester AA</b>				
Business Revenue (or Sales)	≤ \$1,000,000	≥ \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.84%	2.54%	26.62%	100%
% of Bank Loans in AA by #	85.71%	14.29%	0.00%	100%
% of Bank Loans in AA by \$	55.49%	44.51%	0.00%	100%

*Source: Dun & Bradstreet data; Loan Sample*

**Orange County AA**

The analysis of the distribution of borrowers within this AA is not meaningful due to the low volume of businesses in the AA from our random sample. There are a total of 3,108 businesses within this AA being serviced by eight financial institutions.

**Buckingham County AA**

The analysis of the distribution of borrowers within this AA area is not meaningful due to the low volume of businesses in the AA and strong competition. There are a total of 877 businesses within this AA. In addition, three financial institutions service this AA.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

VNB’s lending to geographies of different income levels within its AAs reflects reasonable dispersion. There is one low- income geography and nine moderate-income geographies in VNB’s market area. The bank’s lending in moderate-income geographies is proportionate to the percentage of businesses within those geographies. We focused the analysis for this examination on the Charlottesville AA and Winchester AA, as these have both low- and moderate- income tracts. There are no low- or moderate-income tracts within the Orange County AA or the Buckingham County AA. We did not identify any apparent gaps of areas of low penetration in the bank’s lending pattern.

**Charlottesville MSA AA**

There are 29 census tracts located in the Charlottesville AA. The portion of the Charlottesville MSA AA examined included only the City of Charlottesville and Albemarle County. There is one low-income tract and seven moderate-income tracts.

The distribution of loans to businesses reflects reasonable dispersion throughout the AA. The percentage of loans to businesses located in low-income geographies is less than the percentage of businesses in the low-income geography. However, this is reasonable given performance context. The percentage of loans to businesses located in moderate-income geographies exceeds the percentage of businesses in the moderate-income geographies. This performance is good.

Geographic Distribution of Loans to Businesses - Charlottesville AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans
Small Business	1.15%	0.00%	8.55%	16.67%	54.01%	27.77%	36.29%	55.56%

Source: Dun & Bradstreet Data; Loan Sample

### Winchester MSA AA

There are 16 census tracts located in the Winchester AA. There are no low-income tracts in this AA, but there are two moderate-income tracts. The distribution of loans to businesses reflects excellent dispersion throughout the AA. The percentage of loans to businesses exceeds the percentage of businesses in the moderate income geographies.

Geographic Distribution of Loans to Businesses - Winchester AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans
Small Business	0.00%	0.00%	14.93%	20.00%	60.83%	45.00%	24.24%	35.00%

Source: Dun & Bradstreet data; Loan Sample

### Orange County Non MSA AA

There are five census tracts in this AA. Because there are no low- or moderate-income tracts in the Orange County AA, an analysis of this geography would not be meaningful.

### Buckingham County Non MSA AA

There are three census tracts in this AA. There are no low-income or moderate-income tracts in the Buckingham County AA so analysis of this geography would not be meaningful.



## **RESPONSES TO COMPLAINTS**

VNB did not receive any complaints about its performance in helping to meet credit needs in the AAs during this evaluation period. This has a neutral impact on the overall CRA rating.

## **COMMUNITY DEVELOPMENT TEST**

The CD test is rated satisfactory. VNB's community development activities demonstrate adequate responsiveness to the CD needs of its AAs when considering the bank's capacity, performance context, and the availability of CD opportunities in the AAs.

### **Number and Amount of Community Development Loans**

VNB originated twenty-nine (29) qualified CD loans totaling \$15.2 million during the evaluation period. The loans were made to various organizations, most of which either provide affordable housing to low- and moderate-income individuals or are located within low- or moderate-income geographies. A majority of the loans made during the evaluation period benefited the Charlottesville AA, with a few loans that benefited the Winchester AA. This is appropriate since this is where VNB has the most market presence. There were no community development loans made within the Orange County AA or the Buckingham County AA.

### **Number and Amount of Qualified Investments**

VNB made one (1) CD investment totaling \$1.96 million during the evaluation period. The level of CD investments is adequate based on the performance context. The investment was made within the bank's primary market, the Charlottesville AA.

### **Extent to Which the Bank Provides Community Development Services**

VNB's representatives over the evaluation period participated in fourteen (14) CD services which were responsive to the needs of its AA. A few of the CD services in which VNB representatives participated are described below.

A VNB President served as a Vice President and served on the Resource Development and Executive Committee for an organization that provides community services to Low Moderate Income (LMI) youth.

A VNB Corporate Officer served in the capacity as Director to an affordable housing agency. The Corporate Officer served on the finance committee where the organization provided home improvement programs.

A VNB employee participated in food collection for a local community food bank providing. The food bank has emergency food programs.

A VNB Senior Vice President provided financial education to approximately 30 LMI students. The training included a tour of the bank along with money and banking training.

A VNB officer served as President for an economic development authority. The authority has programs that provide financing to business owners to grow their business and hire LMI employees.

### **Accessibility of Services**

VNB's services are accessible to its AA residents through its branch offices and ATM network as well as online banking. In order to determine the extent of accessibility of VNB's delivery systems, population demographics, branches and ATM locations were considered.

VNB operates eight of its branch offices within its AAs. Of the eight branch offices, three offices representing 38 percent of the total are located within moderate-income geographies. This is good since the four AAs have a total of ten LMI geographies, one in low-income and nine in moderate-income geographies. In comparison of the total AA population, the vast majority resides within middle-income AA geographies.

Additionally, the financial services offered are reasonable for the bank's size. The bank's eight branch offices have hours of operation typical for the market with Saturday hours also available at all but one branch office. VNB has ATMs available at all but one branch and two Drive Thru facilities. VNB has an informational website at <http://www.vnbpeople.com>. The website provides access to online banking and contains additional information for its listing of products and services. VNB offers a number of checking and savings accounts with minimum opening deposit amounts starting at \$25 that are appropriate for LMI customers. Being able to open an account with a small deposit presents customers with an alternative to conducting banking transactions with companies that charge high fees for money orders and similar transactions. A product available to customers 50 years of age or older is the "The Virginia" that can be opened with a minimum of \$25 and has no monthly service fees.

### **Responsiveness to Community Development Needs**

The bank's community development activities demonstrate adequate responsiveness to the CD needs of its AAs. This takes into consideration the bank's capacity and the need and availability of such opportunities for CD activities in the bank's AAs. There were no identified, unmet CD needs during the evaluation period.

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.