



PUBLIC DISCLOSURE

October 26, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Rappahannock National Bank of Washington
Charter Number 6443
P.O. Box 179
257 Gay Street
Washington, Virginia 22747**

Office of the Comptroller of the Currency
Virginia Field Office
3800 Electric Road, Suite 204
Roanoke, Virginia 24018

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 **Rappahannock National Bank of Washington, Virginia** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **(October 26, 1998)**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 Code of Federal Regulations Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

Rappahannock National Bank has met or exceeded the standards for satisfactory performance for each of the following assessment criteria: lending within the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and response to customer complaints. The bank has not met the standards for the loan to deposit ratio assessment criteria. This evaluation is based on an analysis of information covering the period since the bank's last CRA rating, dated November 1, 1995, through September 30, 1998.

The following table indicates the performance level of **Rappahannock National Bank** with respect to each of the five performance criteria.

Small Institution Assessment Criteria	Rappahannock National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio			X
Lending in assessment area		X	
Lending to borrowers of different incomes and to businesses of different sizes		X	
Geographic distribution of loans	Not performed considering demographics of the assessment area.		
Response to complaints	The bank has received no CRA related complaints since the last evaluation.		

DESCRIPTION OF INSTITUTION

Rappahannock National Bank is a \$20 million bank, with a single office located in Washington, Virginia. The bank is a wholly owned subsidiary of Union Bankshares Corporation (UBC) of Bowling Green, Virginia as a result of a stock transaction completed in July of 1998, and is a "well capitalized" institution under the guidelines of the Federal Deposit Insurance Corporation Improvement Act.

The bank offers traditional loan products which include residential real estate, small business, and consumer loans. Agriculture loans are offered, however, the competitive environment has limited the bank's production in this area. As of June 30, 1998, net loans represented 16% of total assets and 19% of total deposits. The bank's loan portfolio consists of 37% commercial loans, 55% residential real estate loans, and 8% loans to individuals (percentages by dollar amount). There are no financial conditions, legal constraints, or other conditions that would hinder the bank's ability to help meet the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of Rappahannock County in the state of Virginia. The county is located in the northeast section of Virginia, and the town of Washington is approximately 70 miles southwest of Washington, D.C. The assessment area is predominately rural with significant mountain areas. The main industries are beef cattle and fruit orchards. The area includes portions of Shenendoah National Park and is near Washington National Forest. County restrictions require a minimum lot size of 25 acres to construct a new dwelling. Tourism provides benefits to the town of Washington and Rappahannock County. Economic conditions in the area are stable.

The population of Washington is approximately 200, and the population of Rappahannock county is less than 7000. Washington is the county seat, Sperryville and Amisville are the other major towns in the assessment area. There are two census tracts included in the assessment area, one middle income, and one upper income. Fifteen percent of the population of the assessment area consists of low income families. Eleven percent of the assessment area consists of moderate income families. Middle and upper income families comprise twenty and fifty four percent respectively. The minority population in the county is nine percent. Sixty percent of the housing units are owner occupied. The median family income in the county is \$36,000 compared to \$35,900 for the state of Virginia.

The major employers in the county are local governments and a mail order house, Faith Mountain, which is located in Sperryville. There are no other financial institutions headquartered in Rappahannock County. There is a branch of Farmers and Merchants Bank

(headquartered in Winchester, Virginia) located in Flint Hill.

Discussions with community leaders indicate that the composition of the county's population has changed in recent years. Many large farms have been purchased for use as personal residences. This has resulted in a loss of low income farming related jobs in the area. Also, there is a lack of affordable housing in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-deposit Ratio

Rappahannock's loan to deposit ratio does not compare favorably with banks in its peer group. The bank's ten quarter average is 23.14 compared to 62.44 for its peer banks. The ratio has been declining over the last ten quarters as well.

Due to the rural nature, relative lack of commerce and low population in the assessment area, lending opportunities in the area are limited. There are only about 4000 persons in the county's labor force. The bank's narrow range of products, and limited legal lending limit, makes expansion of the loan portfolio challenging.

The bank makes a substantial number of small loans to local borrowers, however, the impact of these loans on the bank's loan-to-deposit ratio is minimal. The bank has also shown a willingness to originate SBA loans, however loan demand in the assessment area is weak. Two SBA loans, for a total of approximately \$340,000, are included in the bank's loan portfolio. The bank has invested in two Community Development Corporations (CDCs) which are intended to aid in the development of low income housing in the state of Virginia.

LOAN TO DEPOSIT RATIO

Similarly Situated Banks	Loan-to-Deposit Ratio as of June 30, 1998
Rappahannock National Bank	19.45
Farmer's and Merchants Bank - Peoples *	67.61
Marshall National Bank and Trust *	82.19
The Fauquier Bank *	84.94
State Bank of Remington *	59.39
Southern Financial Bank *	56.86

* Located in Fauquier County, adjacent to Rappahannock County.

The loan to deposit ratio is less than reasonable, taking into account the bank's lending related activities, given the bank's size, financial condition, and assessment area credit needs. The affiliation with Union Bankshares should provide additional product lines and marketing opportunities.

Lending in Assessment Area

Since January of 1997 the bank has originated seventy four percent of its loans by number, and fifty four percent by dollar amount, within its assessment area. As a result of trying to increase the loan volume at the bank, a substantial amount of the commercial lending has been outside the assessment area.

A majority of loans and other lending related activities are within the bank's assessment area.

Lending to Borrowers of Different Income Levels

A review was performed of a sample of real estate related loans originated since January 1997. Thirty three percent of the loans were originated to low income borrowers. An additional twenty nine percent were originated to moderate income borrowers. Eighteen and thirty five percent were originated to middle and upper income borrowers respectively.

The bank has originated one hundred and sixteen loans since January of 1997, thirty eight (33%) of these loans were for less than \$2500, and twelve (10%) were originated for less than \$1000. In that same time period 12 of 19 commercial loans (63%) were originated for less than \$50,000.

LOAN DISTRIBUTION BY INCOME LEVEL

	Percentage of consumer loan sample	Percentage of assessment area population
Low-Income	18%	15%
Moderate-Income	29%	11%
Middle-Income	18%	20%
Upper-Income	35%	54%
Total	100%	100%

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low and moderate income) and businesses of different sizes.

Geographic Distribution of Loans

Based on the demographics of the assessment area, and the composition of the assessment area (no low or moderate income geographies) a geographic analysis of Rappahannock's distribution of loans would not be meaningful. Based on our review of lending inside the assessment area, the bank's distribution of loans reflects a reasonable dispersion throughout their assessment area. The bank's lending pattern does not exhibit any conspicuous, unexplainable gaps.

Response to Complaints

No complaints regarding Community Reinvestment Act issues were received by the bank since the last evaluation.

Compliance with Anti-Discrimination Laws

No violations of the substantive provisions of the anti-discrimination laws and regulations were noted.