



**PUBLIC DISCLOSURE**

July 8, 2019

**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  
Roanoke Field Office  
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, and should not 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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## Overall CRA Rating

**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 that support this rating include:

- Virginia National Bank's (hereinafter referred to as VNB) average quarterly loan-to-deposit (LTD) ratio is more than reasonable, given the bank's size, financial condition, and assessment area's (AA) credit needs.
- A majority of the bank's loans by total number and dollar volume are inside the AA.
- The bank exhibits poor geographic distribution of loans in the assessment areas.
- The bank exhibits reasonable distribution of lending to businesses of different sizes
- The bank's exhibits adequate responsiveness to community development needs in the AA through community development loans, services, and donations.

### Loan-to-Deposit Ratio

The bank's LTD is more than reasonable, considering the bank's size, financial condition, and credit needs of the AA. This meets the standard for outstanding performance. We reviewed the quarterly LTD ratio for the 12 consecutive quarters since the bank's previous CRA evaluation.

VNB's average quarterly LTD ratio from January 1, 2016 to December 31, 2018, is more than reasonable at 92.75 percent. The LTD ratio ranged from a quarterly low of 85.78 percent, to a quarterly high of 98.96 percent, during the evaluation period.

The bank's net LTD ratio compares favorably with other financial institutions in the AA. Our review included LTD ratio comparison of five similarly situated institutions in the AA. These institutions included First Bank, Bank of Clark County, Bank of the James, Sonabank, and Citizens and Farmers Bank. During the same time period, the average quarterly LTD of similarly situated institutions was 88.56 percent, ranging from a quarterly low of 74.94 percent, to a quarterly high of 104.06 percent.

### Lending in Assessment Area

A majority of the bank's loans are inside the AAs. This meets the standard for satisfactory performance.

The bank originated and purchased 71.0 percent, of the total number of loans and 64.4 percent, of the dollar volume of loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank level, rather than the AA level. The following table details the bank's lending activity within the AA and demonstrates that a majority of lending is inside the AA.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Total	440	71.0	180	29.0	620	\$206,921	64.4	\$114,152	35.6	\$321,073

Source: Evaluation Period: 1/1/2016 - 12/31/2018 Bank Data. Due to rounding, totals may not equal 100.0

## Description of Institution

VNB is an intrastate bank headquartered in Charlottesville, Virginia established in 1998. As of December 31, 2018, VNB had total assets of \$645 million. Virginia National Bankshares Corporation wholly owns VNB. During 2018, VNBTrust, a separate limited purpose trust company, merged with and into VNB, becoming VNB Wealth Management, a division of the bank.

VNB currently operates four full-service branches, one limited-service branch, six deposit taking Automated Teller Machines (ATM), and two non-deposit taking ATMs in and around the Charlottesville, Virginia metropolitan statistical area (MSA). Additionally, the bank operates one branch and deposit taking ATM in the Winchester, Virginia MSA. Of all the bank's branches, one branch is located in a moderate-income census tract (CT), two branches are located in middle-income CT, and three branches located on upper-income CT. The bank does not have any branches located in a low-income CT.

During the evaluation period, two branches closed. The Loudoun Mall branch closed on October 28, 2016. This branch was located in an upper income CT. Additionally, the Orange branch closed on April 13, 2018. This branch was located in a middle income CT. The bank opened one branch during the evaluation period. The East Water Street branch opened on December 3, 2018, and is located in an upper-income CT.

The bank offers traditional personal and business deposit and lending products, as well as wealth management and investment services, through the VNB Wealth Management division. Product offerings include personal and business checking and savings accounts, home mortgages, consumer loans, home equity lines of credit, commercial loans, personal and business credit cards, and online banking. Additionally, the bank offers long-term home mortgage loans for sale on the secondary market. Most product and service offerings do not differentiate across branches. However, the bank does offer a special consumer loan product, in collaboration with local non-profit, that is only available at branches located in Charlottesville, Virginia.

As of December 31, 2018, VNB's gross loans totaled \$537 million, deposits totaled \$574 million, and Tier 1 Capital was \$71 million. Gross loans represented 83 percent of total assets. The table below indicates the dollar amount outstanding and percentage of total loans for each type of loan.

<b>Distribution of Loan Portfolio*</b>		
<b>TYPE OF LOAN</b>	<b>Balance Outstanding (\$000's)</b>	<b>% of Total Portfolio</b>
1-4 Family Residential	99,692	19%
Multi-family Residential	27,328	5%
Non-Farm/Non-Residential	217,014	40%
Construction & Land Development	15,972	3%
Loans to Individuals	81,761	15%
Commercial and Industrial	84,737	16%
Loans to Farmers/Secured by Farmland	10,397	2%
Other Loans	289	0%
Total Gross Loans	\$ 537,190	100%
Total	\$ 537,190	100

\*Data obtained from Consolidated Reports of Condition and Income for a bank with Domestic Offices Only – FFIEC 051 as of December 31, 2018.

There are no legal or financial impediments to VNB’s ability to meet the credit needs of its assessment areas. The bank received a “Satisfactory” rating at its last CRA evaluation dated April 18, 2016.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

VNB was evaluated using Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank’s record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank’s responsiveness to CD needs in its AAs through CD lending, qualified investments, and community development services. The evaluation period under the lending test covers the bank’s performance from January 1, 2016 through December 31, 2018. The evaluation period under the CD test is April 18, 2016 through December 31, 2018.

We determined business loans to be the bank’s primary loan product for our analysis. Business loans represented the largest portion of loans originated during the evaluation period. Home mortgage loans, loans to consumers, and loans to small farms were not considered primary loan products for this evaluation period because the bank originated a minimal number of these loan types. Therefore, we did not complete a loan sample of these products for analysis.

We sampled business loans originated between January 1, 2016 and December 31, 2018, since the bank is not required to collect and report small business loan information. We selected a judgmental sample based on sampling guidelines.

We evaluated the bank’s 2017 and 2018 lending performance separately from the bank’s 2016 lending performance due to changes in demographic data effective January 1, 2017. The lending test analyzed the

bank's performance during the evaluation period, using comparative demographic data from the 2010 U.S. Census for loan originations during year 2016. We used comparative demographic data from the 2015 American Community Survey (ACS) U.S. Census for loan originations during years 2017 and 2018.

### **Selection of Areas for Full-Scope Review**

We performed full-scope reviews for the Charlottesville MSA AA (Charlottesville AA), and Winchester MSA AA (Winchester AA). The Charlottesville AA consists of all CTs within the City of Charlottesville, and Albemarle County, Virginia. The Winchester AA consists of all CTs within the City of Winchester, and Frederick County, Virginia.

We completed limited-scope review on the Virginia non-MSA AA. The limited-scope Virginia non-MSA AA consists of all CTs in Orange County, Virginia.

Refer to Appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

### **Ratings**

The bank's overall rating is based primarily on those areas receiving full-scope reviews. More weight was given to the Charlottesville AA when arriving at the overall rating, given the majority of the bank's lending and CD activity occur in this AA. The bank has only one rating area, the Commonwealth of Virginia, and one primary product, small business loans. As such, ratings and conclusions are based on small business lending in the Commonwealth of Virginia.

Please refer to the Scope section the State Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

### **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by, or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# State Rating

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## Commonwealth of Virginia

**CRA rating for the Commonwealth of Virginia: Satisfactory**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

The major factors that support this rating include:

- The bank exhibits reasonable distribution of lending to businesses of different sizes.
- The bank exhibits adequate responsiveness to community development needs in the AAs through community development loans, qualified investments, and community development services.
- The bank exhibits poor geographic distribution of loans to businesses.

### Description of Institution's Operations in Commonwealth of Virginia

VNB is \$645 million intrastate bank, wholly owned by Virginia National Bankshares Corporation. The bank is headquartered in Charlottesville, Virginia, and serves the cities of Charlottesville, and Winchester, and the counties of Albemarle, Orange, and Frederick. The bank operates five full service branches and one limited-service branch. The limited-service branch, located in Charlottesville, only provides drive-up services and is in close proximity to another full-service branch. The bank's website, <https://www.vnb.com>, provides details on service and business hours. Service and business hours do not vary in a way that inconvenience certain portions of the bank's AA, particularly in low- and moderate-income geographies.

Two branches closed during the evaluation period. The Loudoun Mall branch closed on October 28, 2016, and the Orange branch closed on April 13, 2018. The bank opened one branch during the evaluation period. The East Water Street branch, the bank's limited-service branch, opened on December 3, 2018.

VNB offers traditional personal and business deposit and lending products, as well as wealth management and investment services. Product offerings include checking and savings accounts, various types of consumer loans, various types of business loans, home mortgage products, credit cards, and online banking services. Most product and service offerings do not differentiate across branches. However, the bank offers a special consumer loan product, in partnership with a local non-profit, only offered at branch locations in Charlottesville, Virginia.

Demographic Information of the Assessment Area Assessment Area: Charlottesville AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	34	5.9	23.5	32.4	35.3	2.9
Population by Geography	148,192	6.2	19.6	31.8	39.7	2.6
Housing Units by Geography	63,465	6.3	19.0	34.6	40.1	0.1
Owner-Occupied Units by Geography	33,016	4.1	10.2	36.7	49.0	0.0
Occupied Rental Units by Geography	23,589	9.4	29.9	31.3	29.3	0.2
Vacant Units by Geography	6,860	5.7	23.5	36.2	34.6	0.0
Businesses by Geography	13,243	4.1	12.2	31.1	51.9	0.6
Farms by Geography	484	2.1	6.4	43.8	47.7	0.0
Family Distribution by Income Level	32,741	19.0	15.0	18.8	47.2	0.0
Household Distribution by Income Level	56,605	24.3	15.2	16.7	43.8	0.0
Median Family Income MSA - 16820 Charlottesville, VA MSA		\$76,610	Median Housing Value			\$313,940
			Median Gross Rent			\$1,049
			Families Below Poverty Level			7.8%
<i>Source: 2015 ACS Census and 2018 D&amp;B Data. Due to rounding, totals may not equal 100.0</i> (*) The NA category consists of geographies that have not been assigned an income classification.						

## Charlottesville AA

The entire Charlottesville AA includes the city of Charlottesville, and the counties of Albemarle, Buckingham, Fluvanna, Greene, and Nelson. VNB identified a portion of this MSA as its AA. VNB only considers the City of Charlottesville, and Albemarle County as its AA. The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The table above reports, CT delineation based on the 2015 ACS Census, which we used to analyze CT changes in this AA in 2017 -2018. In 2018, there were 34 CTs in the Charlottesville AA. Of those 34 CTs, two (6 percent) are low-income, eight (24 percent) are moderate-income, 11 (32 percent) are middle-income, 12 (35 percent) are upper-income, and one unknown-income tracts. This is slight change from the 2010 U.S. Census, which analyzed CTs for the 2016. In 2016, this AA was comprised of two low-income, five moderate-income, 14 middle-income, 12 upper-income, and one unknown-income tract.

The Charlottesville AA is centrally located in Virginia in the eastern foothills of the Blue Ridge Mountains. Primary industries in the area include educational services, healthcare and social assistance, accommodation and food services, government, trade, and construction. The area is home to one of Virginia’s largest public universities, University of Virginia (UVA). UVA is the driving force of the economy and the largest employer. Due to the presence of the UVA, the area offers a highly educated and skilled workforce to complement its infrastructure. The growing student enrollment at UVA supports job gains in leisure, hospitality, and accommodation services. Other major employers in the area include the UVA Health Systems, the City of Charlottesville, and UVA Health Services Foundation.

According to Moody's Analytics economic report, the strengths in the Charlottesville AA include growth with UVA, a young and highly educated labor force, favorable migration patterns, and consistent growth in household income. Weaknesses in this MSA include the low level of tech and other high-wage jobs for college graduates and the below average housing affordability. The report indicates housing inventory is falling, while housing prices continue to rise, making affordable housing erode more quickly. The area is expected to continue to grow and remain strong as UVA continues to develop a pipeline for talent from graduating students and attract other firms to the area.

According to the Bureau of Labor Statistics, the unemployment rate for the MSA was 2.7 percent, as of March 31, 2019, which was lower than both the state unemployment rate of 2.9 percent, and national unemployment rate of 3.6 percent.

VNB faces considerable competition in the market from other financial institutions, including some large regional and national institutions. According to the Federal Deposit Insurance Corporation (FDIC) Summary of Deposit Market Share Report, as of June 30, 2018, there are 15 institutions within the Charlottesville AA. VNB ranked fifth, with deposits in this AA totaling \$496 million, or 11.11 percent. The top four financial institutions in the AA are Bank of America, Wells Fargo, SunTrust Bank, and Branch Banking and Trust Company (BB&T). Together these institutions represent 70 percent of deposits in the AA.

As part of our evaluation of VNB, we interviewed a community contact from a local organization for an assessment of the local market and community development needs. The organization helps create affordable housing opportunities in the Charlottesville community through education, lending, and development. In 2018, the organization provided down payment assistance to more than 940 homebuyers, created/managed 410 affordable rental properties, and provided financial literacy counseling to more than 4,700 people. The contact stated that economic conditions have steadily improved and Virginia as a whole is urbanizing faster than the national average. The contact identified financing for affordable housing construction and financial literacy outreach as the primary credit needs of the community. Additionally, the community contact stated financial institutions have participated in community development projects in the past.

Demographic Information of the Assessment Area Assessment Area: VNB 2018 Winchester AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	19	0.0	15.8	57.9	26.3	0.0
Population by Geography	108,508	0.0	17.4	55.7	26.9	0.0
Housing Units by Geography	44,055	0.0	16.4	57.2	26.4	0.0
Owner-Occupied Units by Geography	27,768	0.0	10.7	57.9	31.5	0.0
Occupied Rental Units by Geography	12,295	0.0	28.5	54.7	16.8	0.0
Vacant Units by Geography	3,992	0.0	19.0	59.8	21.2	0.0
Businesses by Geography	7,849	0.0	18.6	56.5	24.9	0.0
Farms by Geography	280	0.0	11.1	62.5	26.4	0.0
Family Distribution by Income Level	27,783	19.7	16.3	19.5	44.5	0.0
Household Distribution by Income Level	40,063	18.6	16.3	16.2	48.9	0.0
Median Family Income MSA - 49020 Winchester, VA-WV MSA		\$69,817	Median Housing Value			\$216,463
			Median Gross Rent			\$1,003
			Families Below Poverty Level			5.9%
Source: 2015 ACS Census and 2018 D&B Data. Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

## Winchester AA

The Winchester AA includes the Virginia City of Winchester, and Frederick County, and the West Virginia County of Hampshire. VNB identified a portion of this MSA as its AA to include the City of Winchester and Frederick County. The bank does not consider the West Virginia county of Hampshire, as part of its AA, as there are no branches, deposits, or loan originations in this county. The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income CTs.

The table above reports, CT delineation based on the 2015 ACS Census, which we used to analyze CT changes in this AA in 2017 -2018. In 2018, the AA consisted of 19 CTs. Of the 19 CTs, none are low-income, three (16 percent), are moderate-income, 11 (58 percent), are middle-income geographies, and five (26 percent), are upper-income tracts. This is slight change from the 2010 U.S. Census, which analyzed CTs for 2016. In 2016, when the AA was comprised of no low-income, four moderate-income, eight middle-income, seven upper-income tracts.

The Winchester AA is located at the northernmost tip of Virginia, at the gateway of Virginia's Shenandoah Valley and at the intersection of interstates I-66, and I-81. The area serves as a bedroom community, due to its close proximity to Washington, DC. According to Moody's Analytics, approximately eight percent of residents earn wages from outside of Winchester. This close proximity to Washington, DC, makes the Winchester, AA, an ideal location to live, as the cost of living and doing business is much more affordable than the DC Metro area. Top employers in area include Winchester Medical Center, Navy Federal Credit Union, U.S. Department of Homeland Security, and several national retail chains.

According to Moody's Analytics economic report, the strengths in the Winchester AA include strong in-migration of commuters from nearby Washington, DC, lower cost of living and doing business than

Washington, DC, and diversity. Weaknesses of the area include declining manufacturing industry, below average per capita income, small college-educated population, and above average employment volatility. The Winchester area is expected to sustain growth in the coming years from Washington, DC spillover and expansion into the healthcare and logistic sectors.

According to the Bureau of Labor Statistics, the unemployment rate for the Winchester AA was 2.8 percent as of March 31, 2019, which is below the Commonwealth of Virginia unemployment rate of 2.9 percent, and national unemployment rate of 3.6 percent.

VNB faces considerable competition in the Winchester AA from other financial institutions, including some large regional and national institutions. According to the FDIC Summary of Deposit Market Share Report, as of June 30, 2018, there are 12 institutions within the Winchester AA. VNB ranked tenth, with deposits in this AA totaling \$43 million, or 1.83 percent. The top five financial institutions in this AA are BB&T, Wells Fargo, Bank of Clark County, First Bank, and United Bank. Together these institutions represent 82 percent of deposits in the Winchester AA.

As part of our assessment, we reached out to a local community contact for an assessment of the local market and community development needs for small businesses. We contacted a local economic development organization, the Lord Fairfax Small Business Development Center (SBDC). Lord Fairfax SBDC provides assistance to small businesses in the northern Virginia market, including the county of Frederick and City of Winchester. The Lord Fairfax SBDC's programs provide consulting, financial planning, and business loan assistance. The contact stated that there remains a demand for affordable housing in the area as millennials and recent college graduates with large debts cannot afford to buy homes. As for small businesses, there is a need and opportunity for micro-lending to small businesses in amounts less than \$100,000. Additionally, unemployment is very low making it difficult for small business owners to hire and retain employees since larger corporations in the area are able to easily recruit employees from small businesses by offering competitive wages and benefits. The contact noted local banks are involved in the local economy. Local banks give back to the community through donations and outreach programs.

## **Scope of Evaluation in Virginia**

VNB designated three regions in the state of Virginia as its AA. These regions include Charlottesville AA, Winchester AA, and Virginia non-MSA AA comprised of Orange County. Refer to the table in Appendix A for a list of all AAs under review.

We selected the Charlottesville AA and Winchester AA for full-scope review. These two AA contained the largest concentration of the bank's lending activity over the evaluation period.

The Virginia non-MSA AA, consisting of Orange County, Virginia received limited scope review. The bank maintains a small market presence in this area and closed the only branch located in Orange County, Virginia in April 2018.

The primary loan product used in our analysis of full-scope areas was small business loans. The bank did not originate a sufficient number of home mortgage, small farm, and consumer loans in these two AAs during the evaluation period to conduct a meaningful analysis. As such, an analysis of these products was not considered as part of this performance evaluation.

# CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN VIRGINIA

## LENDING TEST

The bank's performance under the Lending Test in Virginia is rated Satisfactory.

Based on full- and limited-scope reviews, the bank's lending performance in the Commonwealth of Virginia is reasonable.

More weight and consideration was given to lending in the Charlottesville AA, as this area is where the majority of the bank's branches are located, which is reflective of the significantly higher volume of lending, in both total amount and dollar volume.

Additionally, more consideration was given toward lending to businesses of different size than geographic distribution of business loans. Within the bank's AAs, there are a limited number of low- and moderate-income CTs. The Charlottesville AA is the bank's only AA with low-income CTs. In years 2016, and 2017-2018, there were only two low-income CTs in the Charlottesville AA.

Furthermore, the bank did not originate a sufficient number of small business loans in the Winchester AA 2016, to conduct a meaningful analysis for this year. Therefore, the bank's performance in the Winchester AA is solely based on lending activities in 2017-2018.

### ***Distribution of Loans by Income Level of the Geography***

The bank exhibits poor distribution of lending to small businesses across different income levels. However, we found this to be acceptable, considering the lending, branch location, and demographics of this AA. There are constraints to lending to businesses across different income tracts. The geographic analysis is based primarily on the bank's performance in the Charlottesville AA.

### ***Loan to Small Businesses***

Please refer to Table A, in Appendix C, for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to businesses.

### **Charlottesville AA**

In 2016, the geographic distribution of loans to business across different income level CTs reflects poor distribution. In our loan sample of 20 business loans, the bank did not originate any loans to businesses loans in low- and moderate- income census tracts. According to the 2010 U.S. Census data, only 2.8 percent, and 5.8 percent of businesses are located in low- and moderate-income CTs, respectively. Aggregate lending performance in low- and moderate-income CTs was 2.6 percent, and 6.0 percent, respectively. There are limited opportunities for institutions to lend to small businesses in low- and moderate-income CTs.

In 2017-2018, the percentage of lending to businesses across different income levels was similar to the bank's performance in 2016, and reflected poor distribution. In our loan sample of 20 business loans, the percentage of lending to businesses in low-income CTs was below the percent of businesses and aggregate

peer lending performance. In moderate-income CTs, the bank's lending performance was well below both the percentage of businesses and aggregate peer lending performance.

There are limited opportunities to lend to businesses in low-income CTs. Based on the 2015 ACS Census, only 4.1 percent of businesses are located in low-income CTs and aggregate peer lending performance was also limited at 5.8 percent in 2017-2018. In 2017-2018 showed some improvement with 12.2 percent of businesses located in moderate-income CTs and aggregate peer lending performance of 12.2 percent. However, all moderate-income CTs are located within the city limits of Charlottesville, Virginia. The cost of doing business in Charlottesville, Virginia is relatively high. According to Moody's Analytics economic report, the cost of doing business in Charlottesville, Virginia is high at 83 percent<sup>1</sup>.

## **Winchester AA**

In 2016, we did not complete a geographic distribution of business loans in the Winchester AA. The bank did not originate a sufficient volume of business loans in 2016 to conduct a meaningful analysis.

In 2017, and 2018, the percentage of loans to businesses exceeded both the percentage of businesses in this AA and aggregate peer lending performance, based on our sample of 20 business loans. This analysis is based only on moderate-income CTs, as there are no low-income CTs in this AA.

## ***Distribution of Loans by Income Level of the Borrower***

The bank exhibits reasonable distribution of loans to businesses of different sizes, given the product lines offered by the bank.

## ***Small Loans to Businesses***

Please refer to Table A, in Appendix C, for the facts and data used to evaluate the borrower distribution of the bank's business loans.

## **Charlottesville AA**

In 2016, the percentage of business loans with gross annual revenues (GAR) less than \$1 million was well below the percentage of businesses in this AA. However, the bank's percentage of loans was near to the percentage of aggregate peer lending performance in this AA, based on our sample of 20 business loans.

In 2017-2018, the percentage of business loans with GAR less than \$1 million was below the percentage of businesses in this AA. However, the percent of bank loans exceeded the aggregate peer lending performance in this AA, based on our sample of 20 loans.

Although the bank's performance of lending to businesses with GAR of less than \$1 million was well below the percentage of businesses for all three years, we gave more consideration to the bank's performance compared to the aggregate peer lending.

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<sup>1</sup> The cost of business, is a comparison of an index based on the average cost of doing business in the US. Moody's uses a bench mark of 100% to represent the average cost of doing business in the US. For Charlottesville, this represents an index of 83% compared to the US average of 100%.

## **Winchester AA**

In 2016, we did not complete a borrower distribution of business loans in the Winchester AA. The bank did not originate a sufficient volume of business loans in 2016 to conduct a meaningful analysis.

In 2017-2018, the percentage of loans to businesses with GAR of less than \$1 million was well below the percent of businesses and aggregate peer lending performance in this AA. This analysis was based on our sample of 20 loans.

Although geographic lending performance in the Winchester AA exhibits poor distribution, we consider this to be reasonable. The bank only had one branch in this AA during the evaluation period. Competition in this AA is high, as the bank has less than 2 percent of the market share. Additionally, the bank is not required to collect and report revenue information for business loans. Our sample contained 20 percent of loans with unknown revenues, which is significant higher than the percentage of businesses. Three of these loans were for amount less than \$150 thousand. Inclusion of these loans would bring the bank's lending performance near to the aggregate peer lending performance in the Winchester AA.

## ***Responses to Complaints***

There were no complaints regarding the bank's CRA performance during the evaluation period.

## ***Conclusions for Area Receiving a Limited Scope Review***

A meaningful analysis cannot be performed for the limited scope Virginia non-MSA AA because the bank did not originate a sufficient number of loans in the evaluation period. Therefore, we are unable to conclude on the bank's overall performance under the Lending Test in this limited-scope area.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the Community Development Test in the Commonwealth of Virginia is rated Satisfactory.

Based on full-scope review, the bank exhibits adequate responsiveness to community development needs in the AAs through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AAs. The bank's performance is based on the evaluation period beginning April 18, 2016 through December 31, 2018.

More consideration was given to CD activities in the Charlottesville AA, due to the majority of the bank's branches are located in this AA.

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

### **Charlottesville AA**

VNB originated an adequate level of community development loans in the Charlottesville AA. During the evaluation period, the bank extended 19 CD loans totaling \$6.4 million during the evaluation period. This represented 1.19 percent of gross loans and 1.00 percent of total assets. CD loans promoted economic development through the creation of permanent jobs as well as to provide affordable housing to low- and moderate-income individuals. Notable loans to support community development activities included:

- \$4.3 million to help finance the renovation of a four-building apartment complex, which provides affordable housing for low- and moderate-income individuals.
- \$500 thousand to provide working capital to a non-profit, who provides end of life medical care and hospice services targeted to individuals who receive or are eligible to receive Medicaid.
- \$597 thousand to provide financing to a non-profit who provides housing for women in recovery from drug and alcohol abuse, targeted at low- and moderate- income individuals.

### **Winchester AA**

The bank did not have any qualified CD lending in the Winchester AA during the evaluation period. This is reasonable given the bank has a limited market presence with only one branch in the AA.

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

### **Charlottesville MSA AA**

VNB donated approximately \$210 thousand to 46 eligible organizations during the evaluation period. Donations made were to service organizations that promote community development through youth programs, health care, as well as food and housing assistance to low- and moderate-income families in the State of Virginia. Notable donations included:

- \$95 thousand donation to a non-profit offering youth programs, with a majority of the members eligible for free or reduced lunch.
- \$38 thousand donation to non-profit who provides end of life care, targeted to individuals who receive or are eligible to receive Medicaid.

### **Winchester AA**

The bank exhibited poor responsiveness to community development needs in the Winchester AA. The bank did not originate any CD loans, investments, or provide community development services. However, the bank has a limited market presence in this AA, with only two percent of the market share in this AA.

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

### **Charlottesville AA**

During the evaluation period, three employees provided technical services and support to three community development organizations in the Charlottesville AA. The organizations promoted economic development or provided services to qualified low-income families in the AA. Two of the three employees provided financial expertise to their respective organization, while the third employee provided technical assistance to a qualified organization in securing a grant through the Federal Home Loan Banks' (FHLB) Affordable Housing Program.

### ***Conclusions for Orange County Non-MSA AA Receiving a Limited Scope Review***

Based on a limited scope review, the bank's performance under the CD Test in the Virginia non-MSA AA is consistent with the bank's overall performance under the CD Test in the full scope areas.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSA(s) and non-MSA(s) that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

<b>Time Period Reviewed:</b>	1/1/2016 to 12/31/2018	
<b>Bank Products Reviewed:</b>	Small business (Community development loans, qualified investments, community development services)	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
N/A		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Rating and Assessment Areas</b>	<b>Type of Examination</b>	<b>Other Information</b>
<b>Virginia</b>		
Charlottesville MSA AA	Full-scope	All CTs in the City of Charlottesville and the County of Albemarle, Virginia
Winchester MSA AA	Full-scope	All CTs in the City of Winchester and the County of Fredrick, Virginia
Orange County Non-MSA	Limited-scope	All CTs in Orange County, Virginia

## Appendix B: Definitions and Common Abbreviations

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The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending (Aggt.):** The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

**Census Tract (CT):** A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

**Combined Statistical Area (CSA):** A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

**Community Development (CD):** 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 Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**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, 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, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., 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 conduct 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 applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

**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, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income Individual:** Individual income that is less than 50 percent of the area median income.

**Low Income Geography:** A census tract with a median family income that is less than 50 percent.

**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 state/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**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.

**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.

**Rating Area:** A rated area is a state or multi-state metropolitan statistical 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 multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical 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) 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.

**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.

**Tier 1 Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30<sup>th</sup> of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

**Table A. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

**Table B. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

**Table A: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography**

**2016**

Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$ (\$000)	% of Total	Overall Market	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.
Charlottesville AA	20	\$7,718	100	3,349	2.8	0.0	2.6	5.8	0.0	6.0	43.5	45.0	43.7	47.4	55.0	47.7	0.5	0.0	0.0
<b>Total</b>	<b>20</b>	<b>7,718</b>	<b>100</b>	<b>3,349</b>	<b>2.8</b>	<b>0.0</b>	<b>2.6</b>	<b>5.8</b>	<b>0.0</b>	<b>6.0</b>	<b>43.5</b>	<b>45.0</b>	<b>43.7</b>	<b>47.4</b>	<b>55.0</b>	<b>47.7</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>

Source: 2016 D&B Data; 01/01/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

**Table A: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography**

**2017-2018**

Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$ (\$000)	% of Total	Overall Market	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	Aggt.
Charlottesville AA	20	26,677	83.2	3,295	4.1	2.4	5.8	12.2	2.3	12.2	31.1	40.7	30.4	51.9	54.6	51.6	0.6	0.0	0.0
Winchester AA	20	5,392	16.8	1,922	0.0	0.0	0.0	18.6	52.0	17.7	56.5	36.9	57.0	24.9	11.1	25.3	0.0	0.0	0.0
<b>Total</b>	<b>40</b>	<b>32,069</b>	<b>100.0</b>	<b>5,217</b>	<b>2.6</b>	<b>--</b>	<b>3.6</b>	<b>14.6</b>	<b>--</b>	<b>14.2</b>	<b>40.6</b>	<b>--</b>	<b>40.2</b>	<b>41.8</b>	<b>--</b>	<b>41.9</b>	<b>0.4</b>	<b>--</b>	<b>0.0</b>

Source: 2018 D&B Data; 01/01/2017 - 12/31/2018 Bank Data; 2017 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

Table B: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues											2016	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available		
	#	\$ (\$000)	% of Total	Overall Market	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	% Businesses	% Bank Loans	
Charlottesville AA	20	7,718	100.0	3,349	83.8	45.0	46.6	5.6	45.0	10.6	10.0	
<b>Total</b>	<b>20</b>	<b>7,718</b>	<b>100.0</b>	<b>3,349</b>	<b>83.8</b>	<b>45.0</b>	<b>46.6</b>	<b>5.6</b>	<b>45.0</b>	<b>10.6</b>	<b>10.0</b>	

Source: 2016 D&B Data; 01/01/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

Table B: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues											2017-2018	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available		
	#	\$ (\$000)	% of Total	Overall Market	% Businesses	% Bank Loans	Aggt.	% Businesses	% Bank Loans	% Businesses	% Bank Loans	
Charlottesville AA	20	26,677	83.2	3,295	83.5	60.0	51.7	5.7	35.0	10.8	5.0	
Winchester AA	20	5,392	16.8	1,922	82.7	35.0	51.8	5.1	45.0	12.2	20.0	
<b>Total</b>	<b>40</b>	<b>32,069</b>	<b>100.0</b>	<b>5,217</b>	<b>83.2</b>	<b>--</b>	<b>51.8</b>	<b>5.5</b>	<b>--</b>	<b>11.3</b>	<b>--</b>	

Source: 2018 D&B Data; 01/01/2017 - 12/31/2018 Bank Data; 2017 CRA Aggregate Data "--" data not available. Due to rounding, totals may not equal 100.0