



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**October 06, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Rappahannock National Bank of Washington  
Charter Number 6443

7 Bank Road  
Washington, VA 22747

Office of the Comptroller of the Currency

Washington, DC Area Satellite Office  
395 E Street, SW, Suite 850  
Washington, DC 20024

**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 major factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors;
- A substantial majority of loans originated are in the bank's assessment area (AA);
- The record of lending reflects reasonable penetration to small businesses;
- A majority of small loans to businesses were for amounts less than \$100,000; and,
- The distribution of loans reflects reasonable penetration among borrowers of different income levels.

**SCOPE OF EXAMINATION**

CRA activities at Rappahannock National Bank of Washington (RNB) were completed using full-scope review procedures for its entire AA. Our review covered the bank's performance from January 1, 2006 through June 30, 2008. Loans to small businesses were determined to be the bank's primary loan product and were reviewed as part of this examination.

**DESCRIPTION OF INSTITUTION**

Established in 1902, RNB is a \$148 million intrastate community bank. It is wholly owned by Union Bankshares Corporation of Bowling Green, VA, a multi-bank holding company. The bank's main office is located in Washington, Virginia, which is in Rappahannock County, Virginia. RNB operates six full-service branch offices in addition to its main office location. The branch office in Warren County, VA was opened in November 2006. The office in Loudoun County, VA, the two offices in Frederick County, VA and the two offices in Fauquier County, VA were opened in September 2007.

RNB offers a variety of deposit products to meet consumer and commercial banking needs. The bank's Internet website provides detailed information on products and services for both consumers and businesses. Banking services are standard with the addition of on-line banking with bill payment options, and investment advisory programs.

The Bank offers normal business hours during the week and also offers Saturday lobby and drive-in hours. Each branch location also provides customers with access to deposits through ATMs. RNB also offers free ATM access at various Food Lion supermarkets and Valero FasMart locations.

As of June 30, 2008, RNB reported \$105 million in net loans and \$132 million in total deposits. Net loans represented 68% of average assets. The bank's loan portfolio consists of residential real estate loans (57%), commercial and commercial real estate loans (17%), construction and development loans (19%), and consumer loans (7%). Net Tier 1 Capital was \$10 million as of that same date.

According to the June 30, 2008 FDIC Summary of Deposits Market Share Report, RNB was ranked number one out of two institutions in Rappahannock County with 84.17% of deposits. In the Winchester, VA-WV MSA, RNB ranked 12 out of 14 institutions with 0.77% market share of deposits. Competitors in this market include Branch Banking & Trust Co., ranked first with 28.35% of deposits, and Wachovia Bank, NA, ranked second with 19.51% of deposits. In Washington-Arlington-Alexandria DC-MD-VA-WV MSA, RNB was ranked 83rd out of 102 institutions with 0.03%% of the deposits. Competitors in this market include E\*Trade Bank, ranked first 19.31% of the deposits, and Capital One, NA, ranked second with 13.31% of the deposits.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its assessment area. At the prior CRA examination dated September 7, 2004, RNB was rated "Satisfactory."

## DESCRIPTION OF ASSESSMENT AREA(S)

The bank has undergone significant changes in size and branch network since the last evaluation. The Board's strategic focus has been on expansion into new markets that offer growth potential. As a result, RNB purchased five branches from another financial institution to expand its core market. RNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies.

RNB has identified a total of 34 census tracts as its AA. The following information describes these areas.

Demographic Information for Full Scope Area: Rappahannock County - Non MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	2	0.00	0.00	0.00	100.00	0.00
Population by Geography	6,983	0.00	0.00	0.00	100.00	0.00
Owner-Occupied Housing by Geography	2,103	0.00	0.00	0.00	100.00	0.00
Business by Geography	735	0.00	0.00	0.00	100.00	0.00
Farms by Geography	73	0.00	0.00	0.00	100.00	0.00
Family Distribution by Income Level	2,024	9.73	14.23	18.87	57.16	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	485	0.00	0.00	0.00	100.00	0.00

Median Family Income	38,987	Median Housing Value	166,103
HUD Adjusted Median Family Income for 2008	49,600	Unemployment Rate (2000	1.16%
Households Below Poverty Level	7%	US Census)	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 US Census and 2008 HUD updated MFI

The bank's AA includes Rappahannock County, Virginia. The county is located in the north central part of the state. Washington, D.C. is approximately 70 miles to the east and Richmond is within 109 miles. The assessment area is predominantly rural, with a western boundary created by the Blue Ridge Mountains and northeastern boundary formed by the Rappahannock River. The county's 267 square miles are devoted primarily to farmland, forests, and orchards, and include portions of Shenandoah National Park. Washington is the county seat and the County's only incorporated town. Strict zoning ordinances have resulted in the County maintaining a low growth posture. Tourism has benefited the town of Washington and Rappahannock County.

According to the 2000 census data, the non-MSA AA of Rappahannock County consists of 2 upper-income level census tracts. The economic condition in the Rappahannock County Non-MSA AA is considered stable. According to the Bureau of Labor Statistics, the August 2008 unemployment rate for Rappahannock County was 3.7%. The state unemployment rate was 4.62%, and the national unemployment rate was 6.1%. Major employers in the county are Rappahannock County Schools, The Inn at Little Washington, Level 3 Communications, and Wakefield Country Day School. By industry type and number of employees, the largest sectors of employment are the services industry, followed by government, construction and trade.

<b>Demographic Information for Full Scope Area: Washington-Arlington-Alexandria DC-MD-VA-WV MSA MD # 47894 AA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	21	0.00	42.86	42.86	14.29	0.00
Population by Geography	104,591	0.00	41.76	40.52	17.72	0.00
Owner-Occupied Housing by Geography	29,367	0.00	40.78	40.24	18.99	0.00
Business by Geography	12,163	0.00	29.33	42.45	28.22	0.00
Farms by Geography	706	0.00	22.66	51.98	25.25	0.00
Family Distribution by Income Level	28,789	0.00	41.10	40.84	18.06	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	12,072	0.00	56.17	34.23	9.60	0.00
Median Family Income	71,100	Median Housing Value	176,679			
HUD Adjusted Median Family Income for 2008	92,600	Unemployment Rate (2000	1.46%			
Households Below Poverty Level	7%	US Census)				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 US Census and 2008 HUD updated MFI

RNB identified 21 census tracts in the Washington-Arlington-Alexandria DC-MD-VA-WV MSA MD #47894 as part of its AA. According to the 2000 census data, nine census

tracts are moderate-income, nine tracts are middle-income, and three are upper-income. This MSA-MD is located in the northeastern corner of the state of Virginia. The area has grown into the leading information and communications center and the home of many international, as well as national organizational headquarters.

The economic condition in the Washington-Arlington-Alexandria DC-MD-VA-WV MSA MD #47894 AA is considered stable. According to the Bureau of Labor Statistics, the August 2008 unemployment rate for this AA was 3.55%. Major employers in the MSA MD are the Marine Corps Base at Quantico, Booz Allen & Hamilton, Computer Sciences Corporation, George Mason University, INOVA Health System and United Air Lines, Inc. By industry type and number of employees, the largest sectors of employment are the services industry, followed by government, and trade.

Demographic Information for Full Scope Area: Frederick County/City of Winchester MSA # 49020 AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	11	0.00	0.00	81.82	18.18	0.00
Population by Geography	59,209	0.00	0.00	88.53	11.47	0.00
Owner-Occupied Housing by Geography	17,754	0.00	0.00	88.65	11.35	0.00
Business by Geography	4,237	0.00	0.00	84.52	15.48	0.00
Farms by Geography	195	0.00	0.00	81.54	18.46	0.00
Family Distribution by Income Level	16,777	12.92	17.78	24.28	45.02	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,150	0.00	0.00	89.94	10.06	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		47,126 60,900 6%	Median Housing Value Unemployment Rate (2000 US Census)		115,745 1.33%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2008 HUD updated MFI

RNB has also identified 11 census tracts in the Frederick County/City of Winchester MSA #49020 as part of its AA. According to the 2000 census data, nine tracts are middle-income, and two are upper-income levels. This MSA is located at the northernmost tip of Virginia, at the gateway of Virginia’s Shenandoah Valley, and at the intersection of I-66 with the I-81 corridor. 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 services.

The economic condition in the Frederick County/City of Winchester MSA #49020 AA is considered stable. According to the Bureau of Labor Statistics, the August 2008 unemployment rate for this AA was 4.78%. Major employers in the MSA are Rubbermaid Commercial Products and Valley Health Systems. By industry type and number of employees, the largest sectors of employment are the services industry, followed by trade and government.

We made a community contact during the examination. The contact was a regional non-profit organization focused on affordable housing. The organization's mission is to promote education, down-payment assistance, and below market rate loans to first-time home buyers. The contact stated local banks try and meet the housing needs of the community and believed that affordable housing was a primary need of the area.

We also reviewed a community contact performed as part of another CRA examination. This contact was a non-profit organization, serving the needs of micro-businesses and start-up operations. The community contact identified a need for small business loans, credit counseling for small businesses, and technical and financial expertise for entrepreneurs. The contact mentioned that all the local banks are willing to work with borrowers.

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

RNB's performance is "Satisfactory". The evaluation period covered lending activity for small business loans from January 1, 2006 through June 30, 2008, inclusive. Our analysis of the bank's performance for the respective evaluation factors is described below.

### **Loan-to-Deposit Ratio**

RNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. We reviewed the quarterly average loan-to-deposit ratios for the fifteen quarters from December 31, 2004 through June 30, 2008, inclusive. During this period, RNB's loan-to-deposit ratio averaged 86%, which is above the national peer bank average of 74% during the same period. There are no other financial institutions headquartered in Rappahannock County, which made a local comparison difficult.

Due to the County's rural nature, relative lack of significant commercial loan opportunities and small population, lending opportunities in the Rappahannock County AA are limited. However, the average loan-to-deposit ratio trend has been increasing since the previous CRA examination, when the twenty quarter average loan to deposit ratio was 53%. Within the past 18 months, the Bank has acquired five new branches in highly-competitive markets, a contributing factor to the increase in its loan-to-deposit ratio.

### **Lending in Assessment Area**

A majority of RNB's primary loan products were originated within the bank's AA, meeting the standard for satisfactory performance. During the evaluation period, 87% of the total small loans to businesses were within the bank's AA.

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

Borrower distribution reflects excellent penetration among loans to small businesses (businesses with less than \$1 million in gross annual revenues) in the AA. For the Rappahannock County AA, a non-MSA, the percentage of loans to businesses with revenues less than \$1 million equaled 73%. This ratio exceeds the percentage of small businesses (68%) in this part of the AA. Please refer to Table 1A below.

<b>Table 1A - Borrower Distribution of Loans to Businesses in Rappahannock County Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67.72	2.31	34.97	100%
% of Bank Loans in AA by #	73.47	16.33	10.20	100%
% of Bank Loans in AA by \$	78.30	14.86	6.84	100%

**Source: 2008 Geodemographic Data**

In Table 1B for the Washington-Arlington-Alexandria MSA AA, the percentage of loans to businesses with revenues less than \$1 million equaled 85%. This ratio exceeds the percentage of small businesses (64%) in the assessment area.

<b>Table 1B - Borrower Distribution of Loans to Businesses in Washington-Arlington-Alexandria MSA MD # 47894 AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.24	5.25	30.51	100%
% of Bank Loans in AA by #	85.37	12.20	2.43	100%
% of Bank Loans in AA by \$	30.00	63.94	6.06	100%

**Source: 2008 Geodemographic Data**

In Table 1C for the Frederick County/City of Winchester MSA AA, the percentage of loans to businesses with revenues less than \$1 million equaled 83%. This ratio exceeds the percentage of small businesses (63%) in the assessment area.

<b>Table 1C - Borrower Distribution of Loans to Businesses in Frederick County/City of Winchester MSA #49020 AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.90	4.39	32.71	100%
% of Bank Loans in AA by #	83.33	0.00	16.67	100%
% of Bank Loans in AA by \$	93.46	0.00	6.54	100%

**Source: 2008 Geodemographic Data**

RNB’s record of lending to borrowers of different incomes meets the standard for satisfactory performance. As shown in tables 2A – 2C below, the substantial majority of

small business loans were for an amount of \$100,000 or less.

<b>Table 2A - Borrower Distribution of Loans to Businesses by Loan Size in Rappahannock County Non MSA AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans (000)	Percent of Dollar Volume
\$0 - \$100,000	38	77.55	1,534	36.31
\$100,001 - \$250,000	8	16.33	1,314	31.10
\$250,001 - \$1,000,000	3	6.12	1,377	32.59
Over \$1,000,000	0	0	0	0

Source: RNB CRA data

<b>Table 2B - Borrower Distribution of Loans to Businesses by Loan Size in Washington-Arlington-Alexandria MSA #47894 AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans (000)	Percent of Dollar Volume
\$0 - \$100,000	34	82.93	1,145	31.52
\$100,001 - \$250,000	4	9.76	773	21.28
\$250,001 - \$1,000,000	3	7.31	1,715	47.20
Over \$1,000,000	0	0	0	0

Source: RNB CRA data

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Frederick County/City of Winchester MSA #49020 AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans (000)	Percent of Dollar Volume
\$0 - \$100,000	6	100	153	100
\$100,001 - \$250,000	0	0	0	0
\$250,001 - \$1,000,000	0	0	0	0
Over \$1,000,000	0	0	0	0

Source: RNB CRA data

### **Geographic Distribution of Loans**

RNB's geographic distribution of loans reflects excellent penetration in comparison to the geographical distribution of business units within the AA. No conspicuous gaps or areas of low penetration were noted.

### **Geographic Distribution of Loans to Businesses**

The distribution of loans to businesses reflects excellent dispersion among geographies of different income levels compared to the percent of business located in those geographies. Refer to Table 3A – 3C below.



<b>Table 3A - Geographic Distribution of Loans to Businesses in Rappahannock County AA – Non-MSA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business Loans	0	0	0	0	0	0	100	100

Source: RNB CRA data.

<b>Table 3B - Geographic Distribution of Loans to Businesses Washington-Arlington-Alexandria AA – MSA #47894</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business Loans	0	0	29.33	82.93	42.45	14.63	28.22	2.44

Source: RNB CRA data.

<b>Table 3C - Geographic Distribution of Loans to Businesses Frederick County/City of Winchester AA - MSA #49020</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business Loans	0	0	0	0	84.52	33.33	15.48	66.67

Source: RNB CRA data.

### Responses to Complaints

RNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

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