



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 26, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Shenandoah Valley National Bank
Charter Number 23826
100 West Jubal Early Drive
Winchester, Virginia 22601**

Office of the Comptroller of the Currency

**Southeastern District
West Virginia Field Office
Laidley Towers, Suite 730
500 Lee Street, East
Charleston, West Virginia 25301-2117**

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 **Shenandoah Valley National Bank**, Winchester, Virginia prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **April 1, 2002**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated “*Satisfactory Record of Meeting Community Credit Needs*”.

Shenandoah Valley National Bank has met the standards for satisfactory performance and the bank's performance rating is supported by the following:

- A reasonable loan-to-deposit ratio;
- A majority of the bank's loans are made within the assessment area; and,
- Lending to small businesses of different sizes is reasonable.

DESCRIPTION OF INSTITUTION

Shenandoah Valley National Bank (SVNB) is a wholly owned subsidiary of Summit Financial Inc., a holding company headquartered in Moorefield, West Virginia with assets totaling \$592 million as of December 31, 2001. Summit has two other banking institutions, both of which are located in West Virginia, Capital State Bank and Summit Community Bank. The bank opened for business on May 17, 1999 in Winchester, Virginia. The bank's main office is located at 100 West Jubal Early Drive in Winchester with a branch located in a nearby Wal-Mart Super Store, 2350 South Pleasant Valley Road in Winchester. Both locations offer full service Automatic Teller Machines (ATM) and the main bank has a drive-through facility. The bank does not operate any other ATMs.

As of March 31, 2002, SVNB's total assets were \$130.1 million with a net loan portfolio of approximately \$65 million or 50% of total assets. The bank's lending activity (by dollar amount) consists of business loans (72%), residential real estate and home equity loans (26%), and personal or consumer loans (2%). Total deposits were \$113.4 million.

The bank offers a variety of traditional deposit and loan products to consumers, but lending to small businesses has been its primary lending focus. There are no financial, legal constraints, or other conditions that would hinder the bank's ability to help meet the credit needs of its assessment area.

This is the first CRA examination of SVNB since commencing business on May 17, 1999.

DESCRIPTION OF THE CITY OF WINCHESTER & FREDERICK COUNTY

SVNB's assessment area (AA) is comprised of the City of Winchester and Frederick County in their entirety. The AA is located in the northwestern portion of Virginia approximately 70 miles west of Washington, D.C. According to the 1990 U.S. Census, the AA consists of twenty-four block numbering areas (BNA)¹. Of these twenty-four BNAs, six are middle-income (25% of total), eight are upper-income tracts (33% of total), and the other ten tracts (42% of total) are not applicable (NA). There are no low-income or moderate-income tracts identified within the AA. SVNB's AA meets the requirements of the CRA and does not arbitrarily exclude any areas of the City of Winchester or Frederick County.

In terms of population, the City of Winchester and Frederick County are two of Virginia's fastest growing areas. According to the 1990 U.S. Census, the total population for the AA was 67,670 persons. According to the U.S. Department of Housing and Urban Development (HUD), Virginia's updated 2001 median family income² was \$40,800. The AA is comprised of 18,603 families. There are 25,611 households within the AA. The income levels of the tracks are 44% middle-income and 56% upper-income.

¹ A block numbering area (BNA) is defined by the U.S. Bureau of the Census as a statistical subdivision of counties in which census tracts have not been established.

² The term "median family income" describes the statewide (not including families residing in a metropolitan statistical area (MSA)) average income earned by people sharing a home that are related by birth, marriage, or adoption.

Of these households, 24% receive social security income, while another 4% receive other types of public assistance. Approximately 9% of the households within the AA are considered to be below the poverty level.

The AA's economy is growing and loan demand is strong. A factor stimulating the growth has been the number of small and large companies willing to build in the area. Light manufacturing, retail trade, and the service industry comprise the largest part of the local economy. Banking within the AA is extremely competitive with fifteen separate institutions operating 47 banking offices inside the market. F&M Bank-Winchester (with plans to merge with BB&T) operates 14 offices in the AA and has 33% of the deposit share. SVNB has two offices and approximately 8.3% of the market. Most of the offices inside the market are branches of state-chartered or nationally affiliated banks.

As part of our evaluation of SVNB's lending performance, we reviewed the results of a community contact performed by the Federal Reserve Bank of Richmond and one new contact conducted during our evaluation. The contacts were with economic development and housing organizations respectively. These reviews were conducted in an effort to determine opportunities for financial institutions to help meet local credit needs and to understand community perceptions of the local financial institutions' performance in meeting those needs. No salient, unaddressed credit needs or community development needs were identified during these contacts.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Shenandoah Valley National Bank's (SVNB) loan-to-deposit ratio is reasonable in view of the community's credit needs, demand for credit, high level of competition among local financial institutions, and the length of time since the bank began operations. Over the 11 calendar quarters since the bank opened, SVNB's loan-to-deposit ratio has averaged 30%. This percentage is low due to the bank being new. As of March 31, 2002, the bank's loan-to-deposit ratio was 57%.

Due to the high level of competition within the bank's AA, as well as SVNB's relatively small asset size in comparison to its competitors and small market share within the local banking market, any loan-to-deposit comparison with other local banks would not be meaningful. According to the June 30, 2001 *Market Share Report* published by the Federal Deposit Insurance Corporation (FDIC), SVNB ranked fourth within the local banking market, in terms of market share, with an 8.3% share of deposits. F&M-Winchester leads the market with a 33% market share, followed by First Union NB with a 18% share and Wachovia Bank, N.A. with a 8.7% share of total deposits.

Lending in the Assessment Area

Lending in the Assessment Area is reasonable as a majority of the bank's lending activity is within its defined assessment area. To assess the bank's lending patterns in relationship to its AA, we selected a random sample of business loans. Our sample consisted of forty business loans that had all originated since the bank began operation in 1999. We chose business loans to analyze, since that has been the bank's primary product line. We sampled loans made from the bank opening, since this is the initial CRA examination. Loans for business purpose comprise 72% of the loan portfolio vs. 26% for Real Estate and 2% for personal or consumer purposes. From the bank's current trial balance of 224 loans, we chose our sample of 40 loans as indicated in the following table. We determined that 60% of the number and 62.5% of the dollar amount of the business loans were made within the bank's AA.

The following table reflects SVNB’s lending patterns and reveals that a majority of loans is granted within the assessment area (AA):

SVNB’s Lending Patterns for Business Loans <i>(by number and percent of amount loaned)</i>				
	Business Loans by Number		Business Loans by Dollar(000)	
	#	% of #	\$	% of \$
Loans <i>within</i> the AA	24	60%	\$5,339	62.5%
Loans <i>outside</i> the AA	16	40%	\$3,198	37.5%
Total	40	100%	\$8,537	100%

Lending to Borrowers of Different Income and to Businesses of Different Sizes

With respect to the bank’s primary product lines, business loans were the only product reviewed for analytical purposes. Presently, the bank does not have a significant loan portfolio of consumer loans originated to perform a meaningful analysis of lending to borrowers of different income levels.

SVNB’s lending to small businesses is reasonable and reflective of the business income demographics within their AA. According to 2001 Business Geodemographic Data, 84% of the businesses in the AA have revenues under \$1 million. This encompasses 3,104 area businesses. We assessed the bank’s performance by again utilizing the sample of forty business loans discussed previously. These loans ranged in amounts from \$18 thousand to \$2.5 million. We determined that 80% of the number and 65.7% of the dollar amount of loans were to small businesses with annual revenues of less than \$1 million. In addition, fifteen loans representing 38% of the loans sampled were originations of \$100 thousand or less.

The following table reflects SVNB’s lending patterns and reveals that a majority are made to small businesses:

SVNB’s Lending Patterns for Business Loans <i>(by number and percent of amount loaned)</i>				
	Business Loans by Number		Business Loans by Dollar(000)	
	#	% of #	\$	% of \$
Small Business Loans	32	80%	\$5,608	65.7%
Large Business Loans	8	20%	\$2,929	34.3%
Total	40	100%	\$8,537	100%

Geographic Distribution of Loans

The analysis was not meaningful in regards to SVNB’s lending performance by AA distribution, as there are no low- and moderate- income neighborhoods identified. SVNB’s AA is comprised of the City of Winchester and Frederick County in their entirety. According to the 1990 U.S. Census, the AA consists of twenty-four block numbering areas (BNA). Of these twenty-four BNAs, six are middle-income, eight are upper-income tracts, and the other ten tracts are not applicable. There are no low-income or moderate-income tracts identified within the AA. CRA requires and the OCC assesses a bank’s record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank.

Responses to Complaints

SVNB has not received any CRA-related consumer complaints since opening for business.

Fair Lending Review

A review of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on an analysis of this information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with this CRA performance evaluation. The bank has not had a comprehensive fair lending examination since opening for business.