



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Shenandoah National Bank
Charter Number 23085

17 Frontier Drive
Staunton, Virginia 24401

Office of the Comptroller of the Currency
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 Community Reinvestment Act (CRA) performance of **Shenandoah National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 27, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 Code of Federal Regulations (CFR) Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Shenandoah National Bank has met or exceeded the standards for satisfactory performance for each of the following assessment criteria: loan to deposit ratio; lending within the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and, response to consumer complaints.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Shenandoah 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.		
Response to Complaints	No complaints were received.		

DESCRIPTION OF THE INSTITUTION

With its main office in Staunton, Virginia, Shenandoah National Bank (SNB) is a \$51 million community bank which opened July 1, 1996. In addition to its main office, SNB operates two full service branches in Lexington and Waynesboro, Virginia.

As of December 31, 1997, net loans represented approximately 68% of total assets. SNB's loan portfolio consisted of 63% commercial and commercial real estate loans, 25% residential real estate loans, 10% loans to individuals, and 2% municipal loans. Shenandoah National Bank offers a variety of loan products, including 1-4 family residential real estate, commercial loans and loans to individuals for such purposes as purchasing vehicles, single pay and installment loans for personal and household goods, home improvement and educational loans. In an effort to help accommodate low- and moderate-income individuals, SNB does not require a minimum loan 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 its assessment area.

DESCRIPTION OF THE ASSESSMENT AREA

Shenandoah National Bank's assessment area is comprised of four cities and two counties. It includes the cities of Staunton and Waynesboro within Augusta County, and Buena Vista and Lexington within Rockbridge County.

Augusta County, located in the Shenandoah Valley in west-central Virginia, is the second largest county in the state. Staunton is an important educational, retail, commercial, and governmental center and Waynesboro is a significant commercial and industrial nucleus. These three areas share similar characteristics and are economically related.

Rockbridge County, also centrally located in the Shenandoah Valley, encompasses 607 square miles and is bounded on the west by the Alleghany Mountains and on the east by the Blue Ridge Mountains. Lexington is an important educational, retail, commercial and governmental center in Rockbridge County and is the county seat. Buena Vista, situated six miles east of Lexington and adjacent to the Maury River, is the industrial and manufacturing nucleus of the area.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The assessment area includes 43 block numbering areas¹ (BNAs), 14 of which are strictly commercial areas and therefore, contain no residential

¹A Block Numbering Area (BNA) is a non-metropolitan area defined by the U.S. Bureau of the Census for information gathering purposes.

households. Of the remaining 29 BNAs, 18 are designated by the U.S. Census Bureau as middle-income geographies and 10 as upper-income geographies. There are no low-income BNAs and only one moderate-income BNA.

The 1997 estimated statewide non-metropolitan median family income² for Virginia, as determined by the U.S. Department of Housing and Urban Development (HUD), was \$34,800. Based on 1990 U.S. Census data, income levels of the approximate 35,640 families residing in the 29 BNAs within the assessment area were: 14% low-income; 16% moderate-income; 24% middle-income, and, 46% upper-income. Of the low- and moderate-income families within the assessment area, less than 1% resided in the only moderate-income BNA. The majority (63%) of residents lived in middle-income areas, while 36% lived in upper-income BNAs. In 1990, the U.S. Bureau of Census reported the population of the assessment area at 129,402 with nearly half (42%) of those persons residing in Augusta County. By 1995, it was estimated that the population in the assessment area grew to 136,500.³

As of October, 1997, the Virginia Employment Commission reported preliminary unemployment rates for Augusta County and Rockbridge County at 3.1% and 2.6% respectively. The unemployment rate for Staunton equalled 3.1%, Waynesboro 4.5%, Buena Vista 3.7%, and Lexington 1.5%.

Primary industries within the area include manufacturing, services, and retail trade; however, according to the most recent Agricultural Census (1992), nearly half (46%) of the land in Augusta County was classified as agricultural. Agricultural products include livestock, poultry, and their products, with poultry being the dominant sector. Manufacturing is a very important component of the Rockbridge County-Buena Vista-Lexington economy and Buena Vista has traditionally been the manufacturing center of the area. Tourism continues to play an important role in the economies of both the Augusta County-Staunton-Waynesboro and Rockbridge County-Buena Vista-Lexington areas.

Based on the 1990 Census information, there were 3,126 business establishments in the assessment area. Ninety-six percent of these businesses employed fewer than 49 employees. However, in certain areas, such as Stuarts Draft, Grottoes, and Verona, there are a few large employers. McKee Foods, Inc. and Snyder General each employ more than 600 persons. Six other companies in these areas, including Reynolds Metals, Hersheys Food Corporation, Hollister, Inc., Alcoa Building Products, American Safety Razor, and NIBCO, employ more than 300 persons. Five other companies in Augusta County employ between 100-299 persons.

²The term median family income describes the average income earned by people sharing a home, related by birth, marriage, or adoption.

³Based on Weldon Cooper Center for Public Service 1995 population estimates (provisional).

Banking within the assessment area is competitive with numerous financial institutions to help

meet local credit needs. The Augusta County-Staunton-Waynesboro area is served by nine banks and savings and loan institutions, ranging from small, locally owned banks to branches of large national institutions. Nine credit unions also operate in the area. Within the Rockbridge-Buena Vista-Lexington area, there are six banks, also ranging from small locally owned banks to branches of large institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

Shenandoah National Bank's loan to deposit ratio is reasonable. During the five quarters since its formation in July, 1996, SNB's net loan to deposit ratio has fluctuated from 75% during June, 1996, to 71% at September 30, 1997. The average net loan to deposit ratio during that timeframe was 73%. At September 30, 1997, Shenandoah's loan to deposit ratio was 71%, which was somewhat lower than other competing banks in the assessment area. Loan to deposit ratios for competing banks in the assessment area ranged from 72% to 90%.

The bank's loan portfolio contains a high number of low-dollar consumer loans, which evidences the bank's commitment to serve low to moderate income individuals. The highly competitive banking environment also mitigates a loan to deposit ratio which is lower than competing banks, particularly in view of the fact that the bank has only been in existence a short time.

LENDING IN THE ASSESSMENT AREA

The substantial majority of Shenandoah's lending activity is within its assessment area. This was determined by analyzing samples of SNB's residential real estate and consumer purpose loans originated during 1997. The table below illustrates the bank's lending activity inside and outside of the assessment area based on our samples:

	RESIDENTIAL RE	CONSUMER
COMBINED		

	Number	Percent by Number	Number	Percent by Number	Number	Percent by Number
Inside AA	13	68%	59	89%	72	85%
Outside AA	6	32%	7	11%	13	15%
Sample	19	100%	66	100%	85	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Shenandoah National Bank lends to borrowers of different income levels. We determined this by reviewing separate samples of consumer loans and residential real estate loans originated during 1997. The table below illustrates the bank's level of lending to individuals of different income levels, based on these samples.

Income Level	Percent of Families in AA	Residential RE	Consumer	Combined
		Percent by Number	Percent by Number	Percent by Number
Low	14%	9%	28%	22%
Moderate	16%	18%	36%	31%
Middle	24%	18%	24%	22%
Upper	46%	55%	12%	25%
Total	100%	100%	100%	100%

In addition to lending to individuals of various income levels, the bank has a good record of lending to businesses of different sizes. Based on our review, the majority of commercial loans are to small businesses. From May to November, 1997, 92% of commercial loans made were made to small businesses.

GEOGRAPHIC DISTRIBUTION OF LOANS

Of the 29 inhabited BNAs within SNB's assessment area, there is only one moderate-income BNA, which is very sparsely populated, and no low-income BNAs. Due to this fact, a detailed analysis of the distribution among the BNAs is not considered meaningful and was not completed.

REVIEW OF COMPLAINTS

SNB has received no CRA related complaints since its formation on July 2, 1996.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

We performed a fair lending examination in conjunction with our CRA evaluation. Our fair lending review consisted of analyzing a sample of secured consumer loans to determine that all qualified borrowers received credit on substantially the same terms. No violations of the substantive provisions of antidiscrimination laws and regulations were identified.