

## **PUBLIC DISCLOSURE**

April 12, 1999

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Valley Bank, N.A.  
Charter #22763**

**36 Church Avenue, S.W.  
Roanoke, VA 24011**

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

**NOTE:** *This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.*

## **General Information**

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Valley Bank, N.A.** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 12, 1999**. 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**.

- Valley Bank, N.A. adequately provides for the credit needs of the community. Approximately 88 and 99 percent of the dollar volume of HMDA and small business loans sampled, respectively, were extended to borrowers within the assessment area.
- The geographic distribution of loans is adequate and the volume of loans compared to the volume of deposits is reasonable.
- Lending to borrowers of different incomes and to businesses of different sizes is satisfactory, given the demographics of the assessment area.
- No public complaints have been filed during the current assessment period.

## Description of Institution

Valley Bank is a \$104 million institution located in downtown Roanoke, Virginia, and is the wholly-owned subsidiary of Valley Financial Corporation, a \$105 million bank holding company. Valley Bank operates its main office in downtown Roanoke, maintains two branch facilities in Roanoke city and county, and one newly opened branch in Salem, Virginia. Two of the branches offer drive-up service and ATMs. During this evaluation period of July 1, 1996 through December 31, 1998 the Bank did not open any new branches. The Salem branch was opened on April 12, 1999.

The bank offers a full range of deposit products for individuals, businesses, organizations and government authorities. The bank's primary market is small business lending. As shown in the chart below, the bank also offers personal loans of which the majority are residential real estate. Factors impacting the bank's ability to generate business and make loans include limited bank offices, location of its branches, and age of the bank. The bank started operations in 1995. There are no legal impediments, other than legal lending limits, or financial conditions that would adversely impact the bank's ability to meet assessment area credit needs. The bank received a satisfactory evaluation during its previous CRA examination in October of 1996.

<b>Loan Type</b>	<b>Dollar Volume (000)</b>	<b>Percentage of Total Loans</b>
<b>Commercial</b>	\$44,514	62.2%
<b>Residential Real Estate</b>	\$23,638	33.0%
<b>Individual</b>	\$ 3,403	4.8%

## Description of Roanoke Metropolitan Statistical Area (MSA)

Valley Bank, N.A. lies within the Roanoke MSA in the southwest region of Virginia. The area includes the cities of Roanoke and Salem and the counties of Roanoke and Botetourt. The MSA is comprised of 52 census tracts of which 49 are included in the assessment area. The bank has excluded the three northern tracts of Botetourt County. They are located to the far north on Interstate 81, and the bank is not likely to attract business from this area. The assessment area does not arbitrarily exclude any low or moderate income geographies and is within regulatory requirements.

The entire MSA includes approximately 230,000 citizens and is characterized by a low cost of living, affordable housing, and low unemployment. The average median family income is \$45,900 and unemployment as of December 31, 1998 was 2.1 percent. Approximately fifteen percent of the families in the MSA are in the low or moderate income categories. The largest segment of the family population is in the middle-income category. The area's top three industries by distribution of employees are service, manufacturing, and government. Top employers include Carilion Health System, Norfolk Southern, Roanoke County and City Public Schools and the City of Roanoke.

The following table reflects the breakdown of households and families by income category.

Roanoke MSA

<b>Income Level</b>	<b>% of Total Households</b>	<b>% of Total Families</b>
<b>Low-Income</b>	3.1%	2.6%
<b>Moderate-Income</b>	13.1%	12.0%
<b>Middle-Income</b>	56.6%	56.1%
<b>Upper-Income</b>	27.2%	29.3%

Competition within the assessment area is high with commercial banks, savings and loans, credit unions, mortgage banking firms, consumer finance companies, brokerage firms, etc. operating in the Roanoke MSA. In Roanoke City, Roanoke County, and the City of Salem there are 15 commercial banks and savings associations operating a total of approximately 100 offices. The only locally owned and operated commercial banks are Valley Bank, N.A. and Salem Bank & Trust Company. Primary competitors include NationsBank, First Union, First Citizens, and Wachovia all of whose holding companies are headquartered in North Carolina. Additionally, three out-of-town Virginia based community banks have branched into the bank's market area.

Four community contacts from prior regulatory agency evaluations were used as well as two new community contact interviews with representatives from the Department of Economic Development for Roanoke City and from the United Way of Roanoke Valley. Discussions with these organizations indicate community credit needs include small business loans, micro grants for start-up businesses, individual loans, and community development financing. Contacts agreed that the processing of credit requests in centralized out-of-state offices has made the lending process less efficient. The perception is that it is more difficult for minorities to get loans and that banks are reluctant to take small business risk. However, contacts indicated that the local community banks were better meeting the borrowing needs of all income levels.

The following chart indicates the number of census tracts by income levels within the bank's assessment area. There are a total of five census tracts bordering city and county lines that are unpopulated.

<b>Income Level</b>	<b># of Tracts</b>
<b>Low-Income</b>	3
<b>Moderate-Income</b>	8
<b>Middle-Income</b>	22
<b>Upper-Income</b>	11
<b>N/A</b>	5

## **Conclusions about Performance Criteria**

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

The bank's loan-to-deposit ratio is reasonable given the bank's size and age. Valley Bank's loan-to-deposit ratio has averaged 75.6 percent since the last examination (10 quarter average) and was 78.6 percent as of December 31, 1998. Of six area banks comparable in size and ownership, Valley Bank's loan to deposit ratio is the second highest, indicating that the bank is actively responding to area credit needs given its size, financial condition, and competitive environment. Of the six banks, all except one lie within the Roanoke MSA, and all are small community banks with the exception of First Virginia Banks Inc. which is the largest Virginia owned banking group in the state.

<b>Bank</b>	<b>Loan-to-Deposit Ratio as of December 31, 1998</b>
<b>The Bank of Fincastle</b>	86.9%
<b>Valley Bank, N.A.</b>	78.6%
<b>First Virginia Bank - Southwest</b>	77.3%
<b>Bank of Botetourt</b>	75.9%
<b>Salem Bank and Trust, NA</b>	69.0%
<b>First National Exchange Bank</b>	50.5%

### **Lending in Assessment Area**

A substantial majority of the bank's lending activity is to borrowers and businesses within its assessment area. Of the total sample of 64 loans (39 HMDA loans and 25 small business loans), 57 loans or 89 percent were made within the assessment area. The sample consisted of a total dollar volume of \$8 million, of which \$7 million (or nearly 90 percent) were within the assessment area.

### **HMDA Loans**

	<b>Loans Sampled</b>	<b>% of Total Number of Loans Sampled</b>	<b>Dollar Volume of Loans Sampled</b>	<b>% of Total Dollar Volume of Loans Sampled</b>
<b>Within Assessment Area</b>	34	87%	5,267,000	88%
<b>Outside Assessment Area</b>	5	13%	703,000	12%

### **Small Business Loans**

	<b>Loans Sampled</b>	<b>% of Total Number of Loans Sampled</b>	<b>Dollar Volume of Loans Sampled</b>	<b>% of Total Dollar Volume of Loans Sampled</b>
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<b>Within Assessment Area</b>	23	92.0%	2,079,227	98.7%
<b>Outside Assessment Area</b>	2	8.0%	27,562	1.3%

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

Valley Bank has a reasonable distribution of loans among borrowers of different income levels and to businesses of different sizes. The primary product lines are real estate and commercial loans which together comprise 95 percent of all lending activity. Demographic data indicates that approximately 15 percent of families in the Roanoke MSA are in the low or moderate income category. Of the HMDA loans extended during 1998, most were to upper income borrowers. However, the credit extended to low and moderate income borrowers was consistent with the demographics of the assessment area. Although the bank's lending activity to middle-income individuals is comparatively low, its penetration is reasonable given the age of the institution, the limited number and size of its branches, and the level of competition within this segment.

The chart below shows the percentages by number and volume of HMDA loans within each income level.

#### HMDA

<b>Borrower Income</b>	<b>Number</b>	<b>% of Total</b>	<b>Dollar Volume</b>	<b>% of Total</b>
<b>Low-Income</b>	1	2.5%	25,000	.6%
<b>Moderate-Income</b>	4	10.3%	248,000	4.7%
<b>Middle-Income</b>	4	10.3%	336,000	6.4%
<b>Upper-Income</b>	25	64.1%	2,777,000	52.7%
<b>Income N/A</b>	5	12.8%	1,881,000	35.6%

Valley Bank's primary market is small business. The majority of commercial loans since the bank opened have been made to businesses with revenues less than one million dollars. As outlined below, the majority of small business loans sampled were to businesses with revenues less than one million dollars.

#### SMALL BUSINESS

<b>Business Revenue</b>	<b>Number of Loans</b>		<b>Dollar Amount</b>	
<b>Less than \$1 Million</b>	16	64%	413,000	20%
<b>Greater than \$1 Million</b>	9	36%	1,694,000	80%

### Geographic Distribution of Loans

The bank has a reasonable penetration of credit in its assessment area. Lower and moderate income census tracts represent 11 of the 49 tracts in the assessment area. While loans have been extended in most census tracts, there is low penetration in moderate-income tracts. An analysis of lending activity indicates that loans are concentrated in those tracts nearest the bank's offices and efforts to extend credit do not exclude any particular geographies. Lending patterns are reasonable given the small percentage of owner occupied housing in the low and moderate-income tracts and the age of the bank.

The following chart illustrates the geographic distribution of HMDA loans within these income tracts in comparison to the percentage of owner occupied housing. Given the small percentage of owner occupied housing in the low and moderate income tracts, the number and volume of loans in these areas is reasonable. The moderate-income tracts have relatively low penetration compared to the demographics of the area. This could be attributed to the limited number of bank branches and the locations of these branches, as well as the relatively low amount of owner occupied housing in these areas.

HMDA Loans By Census Tract

<b>Income</b>	<b># of Tracts</b>	<b>% of Owner Occupied Housing</b>	<b>% of Total \$ Volume of HMDA Sample</b>	<b>% of Total # Volume of HMDA Sample</b>
<b>Low</b>	3	1.7%	13.5%	8.8%
<b>Moderate</b>	8	9.4%	2.0%	2.9%
<b>Middle</b>	22	58.0%	35.9%	41.2%
<b>Upper</b>	11	30.9%	48.6%	47.1%
<b>N/A</b>	5	0%	0%	0%

### **Responses to Complaints**

Valley Bank, N.A. has not received any complaints during this evaluation period.

### **Record of Compliance with Antidiscrimination Laws**

The CRA examination was conducted to ensure that Valley Bank is satisfactorily meeting the credit needs of its community and adequately performing in its lending activity to borrowers of different income levels and to businesses of different sizes.

During the evaluation, no violations of the substantive provisions of the antidiscrimination laws and regulations were identified, and there was no evidence of illegal credit practices.

